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ENERFLEX

ENERGY FLEXIBILITY

ENERFLEX SYSTEMS LTD. **2005** ANNUAL REPORT

Contents

Enerflex Systems Ltd. is a leading provider of products and services to the global oil and gas production industry. Enerflex provides natural gas compression, power generation and process equipment for sale, rent or lease; hydrocarbon production and processing facilities; electrical, instrumentation and controls services and a comprehensive package of field maintenance and contracting capabilities.

Enerflex provides these products and services in an integrated package or as stand-alone offerings – all part of a unique value proposition to Enerflex customers.

Annual and Special Meeting

Shareholders of Enerflex Systems Ltd. are invited to attend the Annual and Special Meeting which will be held on April 20, 2006 at the Calgary Petroleum Club, 319 5 Avenue SW, Calgary, Alberta, at 4:00 p.m. Calgary time. Those unable to attend are encouraged to sign and return the proxy form mailed to them. The Annual and Special Meeting will be webcast on the Enerflex website at www.enerflex.com

About the Cover

The Mobius Strip was discovered in 1858 by German mathematician and astronomer August Ferdinand Mobius (1790-1868). A continuous loop with just one surface, the Mobius Strip symbolizes Enerflex's ability to transform its energy solutions to meet the needs of customers. It also represents our integrated products and services for wellhead to pipeline applications, which are offered in Canada and internationally.

Disclosure Regarding Forward-Looking Statements

This annual report contains forward-looking statements. Certain statements containing words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe" and similar expressions, and statements that are based on current expectations and estimates about the markets in which the Company operates and statements of the Company's belief, intentions and expectations about development, results and events which will or may occur in the future constitute "forward-looking statements" and are based on certain assumptions and analysis made by the Company derived from its experience and perceptions. Forward-looking statements in this annual report include, but are not limited to: statements with respect to future capital expenditures, including the amount and nature thereof; oil and gas prices and demand; other development trends of the oil and gas industry; business strategy; expansion and growth of the Company's business and operations, including the Company's market share and position in the oilfield service markets; and other such matters. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by and on behalf of the Company. Such forward-looking statements are subject to important risks, uncertainties, and assumptions which are difficult to predict and which may affect the Company's operations, including, without limitations: the impact of general economic conditions; industry conditions, including the adoption of new environmental and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and gas prices; oil and gas product supply and demand; risks inherent in the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; increased competition; the lack of availability of qualified personnel or management; labor unrest; fluctuations in the foreign exchange or interest rates; stock market volatility, opportunities available to or pursued by the Company and other factors, many of which are beyond the control of the Company. The Company's actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, the Company will derive therefrom. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

energy

Global energy demand continues to rise and Enerflex is responding with the products, services and technologies that energy producers require in order to maximize productivity while minimizing cost. As an industry leader around the world, Enerflex works with customers to provide quality products and services in a timely and cost-effective manner.

flexibility

Enerflex offers customers what they want, when they want it. Thanks to Enerflex's 15 business units and two joint-ventures, customers can source products and services from individual business units, or access a bundle of Enerflex products and services from any part of the Company. Customers choose the solution that best meets their needs. With operations around the world, Enerflex has the people and capabilities in place to meet the needs of energy producers, no matter where they are located.

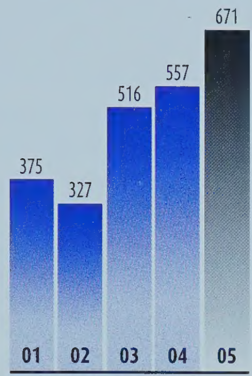
2005 Performance Highlights

($ millions, except per share data and ratios)	2005	2004	2003
Results			
Revenue	**670.6**	557.1	515.5
EBITDA[1]	**81.4**	68.2	51.2
Income before income taxes	**60.6**	49.2	31.2
Net income	**40.1**	32.1	20.4
Per common share – basic ($)	**1.78**	1.44	0.92
Cash from operations	**21.5**	50.9	34.1
Capital expenditures, net			
Rental equipment	**5.3**	21.6	3.7
Property, plant and equipment	**9.5**	8.8	2.8
Dividends per common share	**0.40**	0.40	0.40
Financial Position			
Working capital	**112.2**	86.6	82.8
Total assets	**564.3**	486.9	457.7
Long-term debt	**76.3**	64.0	68.4
Shareholders' equity	**329.3**	297.9	274.5
Key Ratios			
Gross margin as a percentage of revenue	**21.8**	22.5	20.2
Pre-tax income as a percentage of revenue	**9.0**	8.8	6.1
Return on average equity (%)[2]	**12.8**	11.2	7.6

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

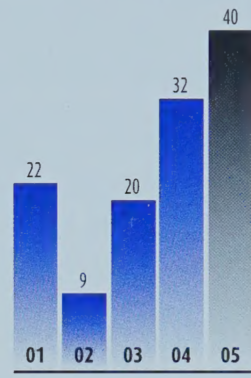
[2] Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

REVENUE
($ millions)



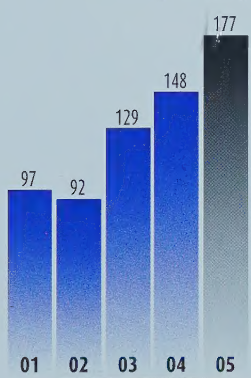
Revenue growth was achieved in each of the Company's three business segments, with Engineered Systems posting a revenue increase of $91 million over 2004.

NET INCOME
($ millions)



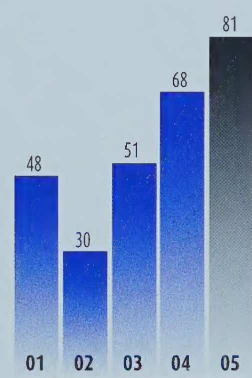
Net income increased by 25%, representing both record net income and record net income per diluted share of $1.77.

INTERNATIONAL REVENUE
($ millions)



International revenue accounted for 26% of total revenue in 2005. To facilitate growth of the Company's international footprint Enerflex created Enerflex Global, a team dedicated to marketing and delivering bundled Enerflex products and services to international customers. International growth and expansion are a key component of the Company's strategic plan.

EBITDA[1]
($ millions)



Steadily improving operations and market conditions over the past three years resulted in record EBITDA[1].

[1] Earnings before interest, taxes and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Supplying a New Market Reality

The energy industry continues to evolve and change at a rapid pace. Demographics and the demand for skilled employees have resulted in an industry wide shortage of human capital. As a result, our customers are placing greater reliance on their service providers to deliver these skills on an 'as and when needed basis' rather than the historical approach of maintaining these capabilities in house.

A second critical issue for today's energy producer or processor is the elapsed time between project approval and first production. The economic risk associated with most projects increases significantly with protracted lead times which result in delayed first production.

As always, total capital cost and ongoing operating costs are vitally important to the economics of our customers' business.

In this year's Annual Report we detail our strategic response to this new reality. These are the overarching principles of our strategy:

- **Recognition of this new reality leads to huge opportunities for our Company in both the domestic and global markets.**
- **Human capital has taken on equal importance to financial strength.**
- **Enerflex will focus on the delivery of complete solutions that are time and cost effective.**

Enerflex is committed to these principles and to succeeding in today's environment.

Our Wellhead to Pipeline Services

Production Services Segment

PRODUCTION SERVICES
Production Services (formerly Leasing) offers customers several alternatives to purchasing compression and process equipment. Through straight rental arrangements, flexible and innovative financing or the new Variable Cost Compression service offering, customers get the same great product while decreasing their portion of the capital cost.

Engineered Systems Segment

PRODUCTION AND PROCESSING
This division builds turnkey, integrated oil and natural gas production and processing facilities and flare systems for the oil and natural gas industry worldwide. Its capabilities include engineering, project management, transportation and field services.

COMPRESSION AND POWER
Enerflex is a world-class packager of natural gas compression and power generation equipment. The Compression and Power division offers a complete line of reciprocating and screw compression packages from 5 to 6,000 horsepower and has the skills and experience to design and engineer customized solutions.

Service Segment

MECHANICAL SERVICE
Mechanical Service provides field maintenance services, equipment and parts to the oil and natural gas industry. With more than 425 personnel, the division operates in Canada, the Netherlands, Germany, Australia and Indonesia.

ELECTRICAL, INSTRUMENTATION & CONTROLS
This division provides a comprehensive range of electrical, instrumentation and control technologies, products and services to a variety of industries worldwide, including oil and natural gas, mining and petrochemical.

CONTINUED DIRECT ACCESS TO EACH BUSINESS UNIT

TRADITIONAL CUSTOMER

Enerflex's traditional customer is an oil and natural gas producer with large, diverse operations. These customers typically have a long reserve life and a business cycle of a decade or more. This type of company tends to have in-house purchasing, maintenance and, possibly, optimization teams.

CUSTOMER

ENERFLEX'S GLOBAL INTEGRATED TURNKEY SOLUTIONS

VALUE PROPOSITION

Several important principles define Enerflex's value proposition, including:

- Customer deals with Enerflex Global – a single source for design, engineering, fabrication, transportation, commissioning and maintenance;
- Customer sees improved control of cost and schedule;
- Enerflex controls the project and the supply chain; and
- Investor sees more revenue from integrated, turnkey approach than from single component sales.

NEW GENERATION CUSTOMER

Expectations have changed. Producers are focused on their core business of exploration and production, not the equipment or the process of sourcing services from numerous suppliers.

These producers want a fully integrated service provider for engineering, fabrication, transportation, commissioning and maintenance.

CUSTOMER

International Markets

North American Markets

CUSTOMER

TRADITIONAL CUSTOMER

Enerflex's traditional customer is an oil and natural gas producer with large, diverse operations. These customers typically have a long reserve life and a business cycle of a decade or more. This type of company tends to have in-house purchasing, maintenance and, possibly, optimization teams.

NEW GENERATION CUSTOMER

A new wave of oil and natural gas producers has risen in the North American market. These producers tend to have a five-to seven-year business cycle, shorter-life reserves and capital programs focused on building production rather than infrastructure. These producers do not generally have the capital or human resources to own, operate and optimize production equipment.
Enerflex has the solution!

CUSTOMER

CONTINUED DIRECT ACCESS TO EACH BUSINESS UNIT

VARIABLE COST COMPRESSION **VCC**

VALUE PROPOSITION

Several important principles define Enerflex's value proposition, including:

- Payment structure ensures that Enerflex's interests are aligned with those of the customer;
- Enerflex owns, operates, maintains and optimizes production equipment;
- Customer retains strategic control, determining sources and levels of throughput; and
- Investors see an ongoing stable revenue stream and an extended value chain.

ENERFLEX'S GLOBAL INTEGRATED TURNKEY SOLUTIONS

VALUE PROPOSITION

Several important principles

Letter to Shareholders

P. John Aldred
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

DEAR FELLOW SHAREHOLDERS:

2005 was a rewarding year for Enerflex. Your Company delivered record financial results while making significant progress in the execution of our strategic plan. The year included these highlights:

- Revenues increased by 20% to a record $671 million;
- Basic earnings per share increased by 24% to $1.78 per share, also a record;
- EBITDA[1] increased by 19% to a new high of $81 million; and
- New Fabrication orders grew by 50% resulting in a year-end backlog for this segment that is 211% higher than a year earlier. Annual bookings and the year-end backlog both represent historic highs.

These strong results do not tell the whole story. In 2005 we incurred expenses that represent a significant investment in our future earning power by continuing our overhaul of operating systems and business processes. These costs will diminish going forward and are expected to provide a solid foundation for further growth and improvements in financial performance.

STRATEGY

For the past 26 years, Enerflex has been viewed as a Company that designs, builds, leases and services natural gas compression equipment.

While these activities will always be the foundation of our business, we are committed to evolving into a globally focused provider of a wide range of value-added technologies and services.

Simply put, our strategy is to significantly increase the scale and reach of Enerflex in Canada and around the world by offering complete solutions for our customers' needs. The following represent examples of this strategy and some of the milestones attained in 2005:

- The creation of Enerflex Global which gives our international customers a single point of access to complete turnkey solutions for projects in the $5 million to $100 million range;
- The acquisition in July 2005 and subsequent integration of HPS Group Pty Limited (HPS) based in Perth, Australia. HPS is a key component of Enerflex Global that allows us to provide project management and installation services, initially in the Asia-Pacific region and ultimately throughout our international operations;
- Development of our Variable Cost Compression (VCC) initiative. Initially aimed at the domestic market, this service allows our customers to outsource their compression needs on a fee for throughput basis, providing significant benefits to producers in terms of return on capital, optimization of legacy assets and access to scarce, skilled human resources;
- In November of 2005 we made a strategic minority investment in Total Production Services Inc. of Grande Prairie, Alberta. Total is one of the largest and most sophisticated contract field operators in western Canada. This investment adds a strong, credible operating and field monitoring capability to our VCC offering; and
- We made a significant ongoing investment in research and development during 2005. Results include innovative new package designs and process technologies that will differentiate Enerflex from our competitors and play an important role in our strategy.

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

CHALLENGES

The shortage of skilled personnel continues to be our greatest challenge. This is not a temporary or segment-specific issue, but rather a concern that will affect virtually all employers in our operating regions for the next decade. It therefore requires a long-term approach.

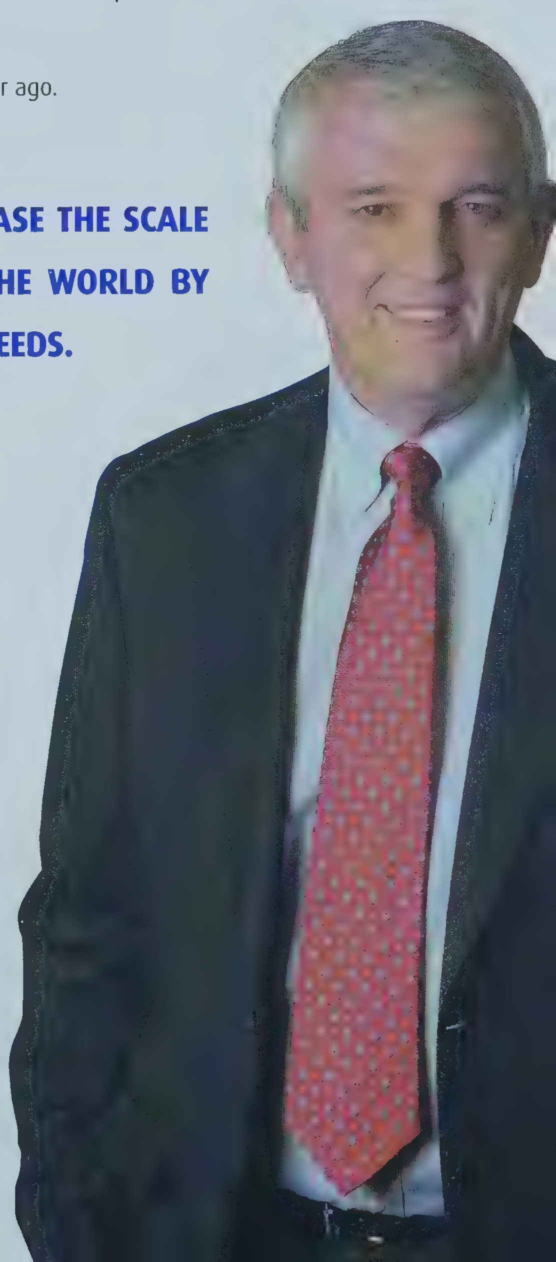
The shortage of skilled labour will also create an opportunity for successful service companies that can attract and retain these employees. Since many of our customers face this same issue, we expect greater acceptance of outsourced services such as VCC and turnkey projects.

Long delivery lead times for major components also represent a challenge. We made great strides in mitigating this issue in 2005 by working closely with our customers and suppliers to forecast and schedule the delivery of key components as and when needed.

In addition, our strong balance sheet has allowed us to expand our inventory of these components which has helped greatly in alleviating this constraint.

While we cannot become complacent, we are in a far stronger position than a year ago.

SIMPLY PUT, OUR STRATEGY IS TO SIGNIFICANTLY INCREASE THE SCALE AND REACH OF ENERFLEX IN CANADA AND AROUND THE WORLD BY OFFERING COMPLETE SOLUTIONS FOR OUR CUSTOMERS' NEEDS.



MARKET CONDITIONS

Enerflex serves two markets: Canada and the rest of the world. While these markets have a number of common drivers, there are differences.

Within Canada, the Western Canada Sedimentary Basin is maturing and requires a combination of significant levels of development drilling and the addition of compression equipment to offset accelerating decline rates. Non-conventional reserves of natural gas, in particular coal bed methane, have emerged as viable sources of supply that will drive increased demand for our products and services for some time to come.

Natural gas development outside North America is for the most part, in its early stages of development. The rapid industrialization of China and the Indian subcontinent is driving worldwide demand for natural gas. Combined with the development of liquefied natural gas (LNG), the demand for production infrastructure is accelerating rapidly.

Historically, forecasting the outlook for the energy industry has been notoriously difficult, but conditions in both the domestic and international markets are strong and appear likely to remain so in the near to medium term.

IN CONCLUSION

2005 was an exciting and gratifying year for our Company during which we progressed to an even greater degree than our strong financial performance would indicate.

Almost three years ago our senior management team and all our employees committed themselves to significant and positive change. The results have been spectacular. Today, we are a values-driven organization with an unshakeable commitment to excellence, safety and doing the right thing. This is a never-ending journey but we are immensely proud of all our employees and the progress they have made.

I would also like to thank our Board of Directors for their equally important contribution. Their knowledge, guidance and willingness to ask the tough questions continue to be of immense value.

Finally, we are very grateful to our shareholders for their support as we work hard to build Enerflex into a true world leader in our industry.

Sincerely,

P. John Aldred
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
February 9, 2006

Straight Talk with Blair Goertzen

PRESIDENT AND CHIEF OPERATING OFFICER

Q **How would you rate the overall performance of Enerflex in 2005?**

A I am very pleased with both our operating and financial performance. The combination of a huge commitment from all our employees and strong market conditions resulted in record revenues and earnings for our Company.

Nearly three years ago the senior management team and our employees embraced the need for positive change. The results, in every facet of our organization, have been profound in terms of leadership and process improvement.

Q **How does this year compare to the prior year in terms of revenues and new orders?**

A Total revenue increased by 20% in 2005 while our Engineered Systems segment experienced sharply higher order intake, up by roughly 50% over the prior year. Our acquisition of HPS Group in July 2005 contributed approximately 12% of the increase in new orders.

Our Engineered Systems backlog increased by 211% on a year over year basis. Approximately 53% of the increase came as a result of new international projects booked by our Production and Processing division, with HPS contributing approximately 23% of the year end backlog.

Q **What types of new products and services did Enerflex develop in 2005?**

A In terms of new engineering developments, our Production and Processing group has become involved in the design and fabrication of water recovery facilities for SAGD[1] applications in the heavy oil industry and our compression research and development efforts have launched several new, higher horsepower screw compression models.

We expect these new products to increase our market penetration in both the Alberta oil sands and coal bed methane applications. Variable Cost Compression was introduced to our customers in late 2005. It provides an attractive solution for producers who have underutilized compression and natural gas processing assets.

[1] SAGD – Steam Assisted Gravity Drainage.

Q Why does Enerflex believe Variable Cost Compression will be accepted in the Canadian market?

A I am confident Variable Cost Compression will gain acceptance, mainly because it makes compelling economic sense in today's environment.

This service allows our customers to improve their return on capital employed, deal effectively with underutilized legacy assets and outsource scarce operating and maintenance needs in a safe and efficient way. It lets them focus on their core competency, finding and developing energy reserves.

Q What is the biggest challenge Enerflex faced in 2005? How is it being addressed?

A Without question, our biggest challenge is the shortage of skilled employees, both in the trades and professional disciplines.

There is no single, easy solution to this issue. We have taken the path of working hard to be the employer of choice by providing a safe, secure and rewarding workplace, by stepping up our in-house training programs and by strongly supporting apprenticeship and co-op training programs.

This is an industry-wide issue that we must all pay close attention to in the years to come.

Q The availability and delivery of major components has been an issue for Enerflex over the past year. How is Enerflex planning for similar difficulties in the coming year and how do you expect these issues to be resolved?

A We have used the combination of our strong balance sheet and market based forecasting to deal with this challenge. This has meant beefing up our inventory of key major components and utilizing the strong relationships we have with our suppliers to schedule the right equipment to arrive at the right time.

Lead times have not improved but we are in far better shape than we were a year ago.

Q Are there any emerging industry trends that you expect to encounter during the coming year and how might these affect Enerflex?

A Domestically, coal bed methane production is clearly a growth trend that I expect to become an even bigger part of our business in 2006 and beyond. We have been very successful in this market and aim to be a dominant player. Oil sands development in Alberta is another area that we view as a long-term opportunity for our Production and Processing division.

On the international front there is a clear customer preference for a single supplier with the capability to deliver a turnkey project solution. This is why we have launched Enerflex Global.

Q What exactly is Enerflex Global?

A Enerflex Global is the vehicle we have created to offer our international customers seamless access to our wide range of products and services through a single point of contact.

Q With international growth a key objective in the Company's plans, what regions does Enerflex believe have the greatest potential?

A Clearly the next logical step is to expand into the Middle East and the Indian subcontinent. These regions have huge energy reserves and the investment in infrastructure is accelerating rapidly. Another region we are very focused on is Asia-Pacific.

These regions offer a great many opportunities for Enerflex Global to provide fully bundled products and services for projects in the $5 million to $100 million range.

Q Why was the acquisition of HPS Group based in Perth, Australia in July of 2005 so important to Enerflex's international expansion? Has this acquisition been as beneficial as you would have hoped?

A The acquisition and integration of HPS' expertise into Enerflex Global will mean its project management skills are available throughout Enerflex's international operations, which is a key part of our international strategy.

The acquisition of HPS has provided Enerflex with everything we expected and more. It is a first-class organization that has added the ability to offer installation and full project management capability along with our compression and production and processing equipment.

Q It appears you have a different strategy for the domestic market. How does it differ and why?

A We have carefully studied the domestic market and concluded that it is best served by highly focused and specialized business units.

Unlike the world market, Canadian customers have a wide range of choices in a relatively small geographic area, hence the need for this different approach.

Q What is Enerflex's greatest asset?

A Without question our greatest asset is the combination of intellectual capital and a culture of "doing the right thing". We work hard every day to build and nurture both of these vital elements.

Q What sets Enerflex apart from its competitors?

A Our broad range of products and services focused between the wellhead and the pipeline. Our commitment to constant innovation and our flexibility to meet the changing needs of our customers.

Enerflex strives for continuous improvement in an evolving global marketplace. We lead in product development to meet customer demands plus we have a significant infrastructure in Canada and in target regions around the world.

Q Where do you see Enerflex this time next year?

A It seems reasonable to predict that we will again deliver improved operating and financial results. Strong industry fundamentals along with the current high backlogs and booking levels we are seeing in all our business units point toward even stronger results in 2006.

Historically, Enerflex has been viewed as a compressor fabricator and service organization. While these activities remain our cornerstone, I believe you will see continued progress in our evolution toward being recognized as a provider of a wide range of value-added, technologies and services.

Operations Overview
A Worldwide Opportunity

Global locations of Enerflex supplied equipment and/or services

Alaska
Algeria
Angola
Argentina
Australia
Azerbaijan
Bahrain
Bangladesh
Barbados
Belgium
Brazil
Brunei
Cameroon
Canada
Chile
China
Colombia
Congo, Republic of
Croatia
Denmark
Ecuador
Egypt
Finland
France
Gabon
Germany
Greece
Guatamala
Hungary
India
Indonesia
Israel
Italy
Kazakhstan
Kenya
Kuwait
Malaysia
Mexico
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Papua New Guinea
Peru
Philippines
Poland
Qatar
Romania
Russia
Saudi Arabia
Senegal
Singapore
Slovakia
South Africa
South Korea
Spain
Sudan
Switzerland
Taiwan
Tanzania
Thailand
Trinidad & Tobago
Tunisia
Turkey
Turkmenistan
Ukraine
United Arab Emirates
United Kingdom
United States
Venezuela
Vietnam
Yemen

Canada

DEMAND

Demand for Canada's oil and natural gas resources is expected to remain high, as the country's consumption will rise slightly and the United States' need for imports increases.

OUTLOOK

The Canadian business units continue to develop products and increase market share in this region. The importance of non-conventional sectors such as coal bed methane (CBM) and Alberta oil sands continues to increase.

United States

DEMAND

Energy consumption in the United States continues to grow, which will increase demand for both oil and natural gas.

OUTLOOK

Export sales and contract compression continue to provide limited areas of growth for Enerflex. Growth in the specialty gas compression sector, a market in which Enerflex is a leader, will be a focus in this region.

Latin America

DEMAND

Demand for oil and natural gas is expected to increase, as these countries try to meet domestic demand and the import requirements of trading partners.

OUTLOOK

Producers prefer to rent rather than purchase compression and production equipment. Enerflex continues to cautiously pursue these opportunities with limited resources.

Europe and West Africa

DEMAND

Demand should increase as certain economies in West Africa attract infrastructure investments and European consumption, particularly in Eastern Europe, rises.

OUTLOOK

These regions hold potential as an export market for Enerflex. Organic growth of the European business units is expected, with particular focus on Eastern Europe.

Middle East

DEMAND

With a large proportion of the world's oil and natural gas reserves, the Middle East could see both increasing regional demand and escalating exports to worldwide markets.

OUTLOOK

Through its project management and construction skills Enerflex expects to achieve continued success in securing large, integrated turnkey projects in the Middle East.

Asia-Pacific

DEMAND

Consumption in Japan, Australia and New Zealand is expected to increase only slightly while emerging economies drive the region's significant overall growth demand.

OUTLOOK

By continuing to build on the success of business units in the region and increasing their construction and project management skills, Enerflex is able to act on opportunities opening in the Asia-Pacific, from increased service contracts to integrated turnkey projects.

Enerflex Global

The natural gas industry outside North America is in its infancy and represents huge growth potential for Enerflex. The Company has responded by establishing Enerflex Global to increase its international footprint. Enerflex Global is the fully integrated international service provider of all Enerflex products and services. This team is responsible for responding to market opportunities for integrated turnkey solutions outside Canada.

Enerflex Global's services range from analysis and engineering to fabrication, logistics and transportation, installation and commissioning with a commitment to helping customers achieve optimum results.

The Enerflex Global team is building the framework for the Company's international growth strategy by identifying potential acquisitions in key regions and played a key role in the acquisition in July 2005 of HPS, an Australia-based company specializing in engineering, construction and project management. This acquisition dramatically increased Enerflex's capabilities in the Asia-Pacific region and serves as a model for future expansion.

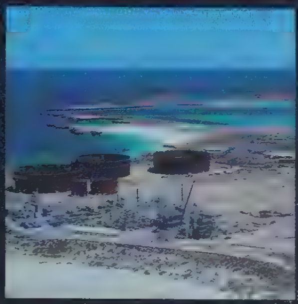
Enerflex achieved record international revenues in 2005 of $177 million. Major projects include the completion of a CO_2 gas removal facility project in Pakistan, the Company's largest ever. In addition, Production and Processing in collaboration with Compression and Power secured a number of significant contracts throughout the year, including projects in the Middle East and Asia-Pacific in support of the Company's continued international growth.

This team will continue to expand the Company's international presence in 2006, targeting selected regions where natural gas production and processing are growing. Enerflex Global will also continue to develop the Company's capability to execute projects up to $100 million in value.

Bruce Laughlin
INTERNATIONAL SALES ENGINEER, ENERFLEX GLOBAL
Enerflex employee for 5 years

HIGHLIGHTS

- Enerflex Global was established in 2005 and its operating mandate was developed.
- Enerflex, through the Company's Engineered Systems segment, secured contracts in Egypt, Indonesia, Bangladesh and Thailand.
- International revenue increased by 20% to \$177.3 million in 2005, from \$147.7 million in 2004.



The CO_2 removal project on Varanus Island off the northwestern coast of Australia was part of the John Brookes Development project and brought together the various services of Enerflex. This project presented a unique blend of challenges. Faced with adding to an existing facility, designing within an extremely small lease space, and achieving an aggressive delivery schedule, Enerflex undertook and successfully completed the supply and construction of the John Brookes CO_2 Removal Unit.

Enerflex and its joint-venture, Presson Descon International (Private) Limited (PDIL), in Pakistan were awarded a \$40 million order to supply a natural gas processing facility in Egypt. The Company leveraged previous success in the region and the project management and construction skills of PDIL to secure this order. This project, which involves the participation of several business units, will deliver revenue of approximately \$25 million for Enerflex.

Production Services

Production Services offers the energy industry a wide range of options to produce and process natural gas without committing capital. Offerings include conventional rental of compression and process equipment, as well as operating and finance leases. Backed by the full resources of Enerflex and its 40% equity investment in Total Production Services Inc., this division can install, own, operate, maintain and remotely monitor its equipment on a contract basis.

In 2005, the division continued to expand its compression rental business reaching the important milestone of over 100,000 horsepower in its fleet. This was achieved despite many customers electing to purchase rental equipment and long lead times for major components impacting delivery schedules for replacement rental assets.

During the year, Production Services added to its fleet of trailer mounted compression equipment and increased its penetration into the United States and Australian markets. International growth is expected to continue in both these markets, particularly for CBM projects.

The division's process fleet had record utilization rates in 2005 as a result of a steady increase in the demand for process rental equipment. This has led to increased investment in this class of rental asset including the acquisition of a refrigeration plant from the Production and Processing division for delivery in 2006 which will significantly increase the scale of Production Services' process fleet.

Production Services launched its Variable Cost Compression (VCC) initiative in the fourth quarter of 2005. VCC is a logical progression of the division's business model that allows customers to pay for the cost of compression as they produce based on how much they produce while at the same time reducing the amount of capital tied up in equipment.

Aimed initially at underutilized legacy assets, Production Services will purchase underutilized installations from producers replacing them with right sized equipment on an own, operate, maintain and monitor basis, in return for a variable fee based on throughput and availability. Discussions are ongoing with a number of producers and the initial response has been very positive.

For 2006 the division expects to undertake a number of VCC projects and see continued growth in its base rental business. Contract terms have been amended with respect to buyout provisions with the intent of achieving greater stability in fleet size and utilization rates. Production Services' capital expenditure budget is more than adequate to facilitate forecast growth in both domestic and international demand, as well as the VCC initiative.

Kathryn Korbaylo
COMPRESSION LEASING FLEET MANAGER, PRODUCTION SERVICES
Enerflex employee for 4 years

HIGHLIGHTS

- Production Services achieved revenue growth of 11% to $31.4 million.
- Developed the Variable Cost Compression product line.
- Compression lease fleet reached a combined capacity of more than 100,000 horsepower.
- Process utilization rate averaged 67.7%, an increase from 54.7% in 2004, while the average compression utilization rate decreased to 80.3% in 2005 from 84.7% in 2004.
- Production Services added 45 compression units and 53 process equipment units in 2005.

Through the addition of three large horsepower reciprocating trailer units, Production Services increased its ability to reduce downtime for producers. Demand for compressor packages is high and producers have encountered delays in delivery of newly fabricated packages.

Expansion into the United States continued with large horsepower compression units contracted in Utah, Montana and the Gulf of Mexico.

Production and Processing

Production and Processing designs and manufactures integrated oil and natural gas production and processing facilities for the global energy industry providing engineering, manufacturing, transportation, project management and commissioning services. Growth opportunities are driven by increasing oil and natural gas production worldwide. Production and Processing has a presence in Canada, Australia and Indonesia, plus a joint-venture in Pakistan.

2005 was a strong year in the Canadian market for Production and Processing. The division successfully entered Alberta's heavy oil sector by mechanically designing and manufacturing water recovery facilities used in steam-assisted gravity drainage (SAGD) applications, a leading technique for underground or in situ heavy oil recovery.

Production and Processing was also very active in the international market during 2005, utilizing the project management skills of Enerflex's joint-venture partner in Pakistan to secure a contract to supply a large turnkey liquefied petroleum gas plant in Egypt. Also in the Middle East, the division was awarded a contract for the supply of a glycol regeneration system for installation in Dubai.

Further growth in the Asia-Pacific region occurred both organically and through the strategic acquisition of HPS in July 2005, with contracts being awarded for projects in Bangladesh, Indonesia and Thailand.

The addition of HPS, an Australia-based engineering and project management company, significantly enhances the skill set of the Production and Processing division. With the addition of HPS, this division is now able to offer project management skills to customers in the entire Asia-Pacific region, facilitating continued growth.

In 2006 the division will seek to increase its operating capacity to meet increasing demand for its products in Canada and worldwide. This will be achieved by continuing to expand existing facilities and outsourcing non-critical activities to suppliers in targeted regions. Outsourcing will help Production and Processing remain competitive in the international arena by reducing strain on the division's Canadian human resources and facility space, plus significantly reducing transportation costs.

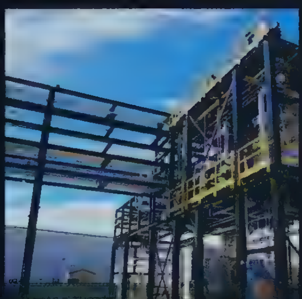
The division's objectives for 2006 include capturing increased market share in the Alberta oil sands heavy oil market and further expansion into the Middle East and Asia-Pacific. The division exited 2005 with the highest backlog in its history, an increase of 278% over 2004, indicating that 2006 will be another strong year.

Peter Jaeger
MANAGER MARKETING, PRESSON
Enerflex employee for 13 years

HIGHLIGHTS

- Exited 2005 with a backlog 278% higher than 2004, the highest in its history.
- Secured the division's first-ever coal bed methane compressor station construction contract in Queensland, Australia.
- Supplied major components for a number of contracts in Pakistan, Australia and Bangladesh.
- Increased foothold in Mexico in late 2005 by securing large contracts for natural gas flare systems.

Production and Processing supplied a CO_2 removal gas processing facility to a customer in Pakistan. The $47 million contract is the largest project ever for Production and Processing. The contract included the services of several other Enerflex business units.



The division added the capability to manufacture and supply water recovery facilities for the Steam Assisted Gravity Drainage market. In 2005, the division earned and executed one water recovery facility contract and earned contracts from a number of customers for delivery in 2006.

The division's environmental group was awarded its largest-ever noise pollution control project. The contract is for the acoustic enclosure for a liquefied natural gas train in Western Australia.

Compression and Power

The Compression and Power division of Enerflex is a market leader in the design, engineering and manufacture of gas compression and reciprocating power generation modules. Operating from four specialized facilities in North America, this division offers reciprocating and screw type compression equipment in sizes ranging from 50 to 6,000 horsepower in both standard and custom configurations.

2005 was a strong year for this division, despite experiencing extended lead times for major components. This challenge was mitigated through market based forecasting of requirements and careful supply chain management, a process that will continue through 2006.

CBM has become a significant market segment for Compression and Power. In 2005, the division added several new standard models in both reciprocating and screw configurations for this application, with particular emphasis on machines in the 800 to 1,500 horsepower range.

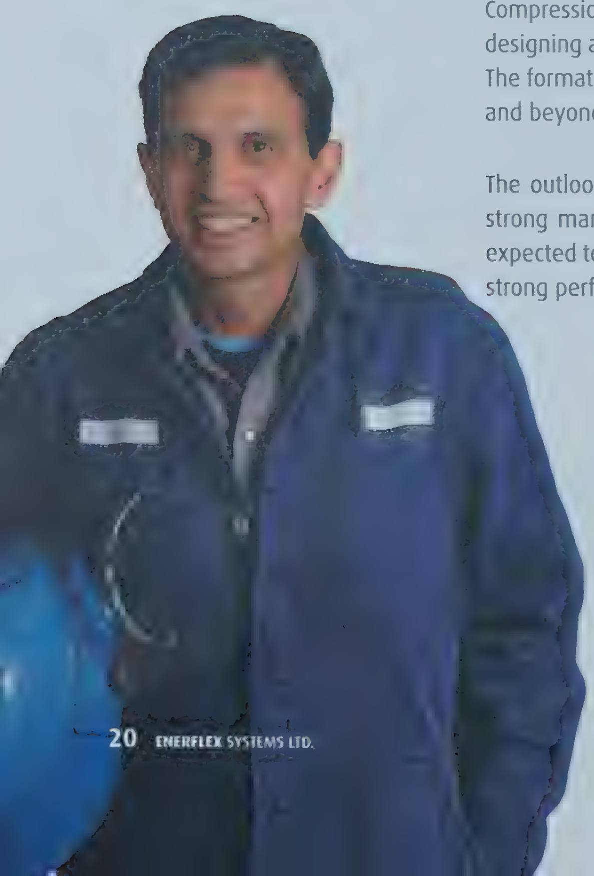
The division's efforts have been rewarded with considerable success in the CBM segment. In late 2005 and early 2006, Compression and Power was awarded a number of multiple unit orders for both screw and reciprocating machines that establish the division as a market leader in the supply of CBM compression equipment. Deliveries of this equipment are scheduled for the second half of 2006 and into 2007.

Technical innovation and the development of standard products that are both cost effective and of high quality represent a critical success factor for this division. Significant progress was made in 2005 and these efforts will continue in 2006 and beyond.

In 2005 the division continued the overhaul and improvement of its business systems and processes. Great strides have been made in terms of elevating the division's manufacturing efficiency, product quality and customer satisfaction as a means of competitive differentiation.

Compression and Power also enjoyed success in the international market during 2005 by designing and manufacturing specialized, custom equipment for export around the world. The formation of Enerflex Global is expected to result in increased export business in 2006 and beyond.

The outlook for 2006 is exciting. The division enters the year with a high backlog and strong market demand for its products. VCC and the Enerflex Global initiative are both expected to have a positive impact on activity levels leading to the expectation of another strong performance for this division in 2006.



Jeff Gallyer
JOURNEYMAN WELDER, EFX COMPRESSION
Enerflex employee for 13 years

HIGHLIGHTS

- Compression and Power achieved revenue growth of 33% to $252.8 million.
- Added two screw compressor designs with capacity under 800 horsepower and four in the 800 to 1,500 horsepower range.
- Designed two reciprocating compressor packages for exclusive use in coal bed methane applications. These packages were designed to require less fabrication time than traditional packages.
- Reorganization of the division's Odessa, Texas facility to refocus on the niche market of specialty gas compression.

Expansion into the international screw compression market with the supply of sub-600 horsepower units to Australia and the United States.

Through continued refinement and implementation of the HP*MAX* compressor optimization program, Compression and Power has developed a necessary component of the Variable Cost Compression product line.

Compression and Power continued to strengthen relationships with major producers in Canada by signing and renewing alliance agreements for the supply of compression and power generation equipment.

Mechanical Service

Mechanical Service operates in Canada, the Asia-Pacific region and Europe providing field maintenance, overhaul services, engines and replacement parts to the energy industry. Working as either an independent service provider or together with the Engineered Systems and Production Services segments, Mechanical Service offers customers complete support service for Enerflex products and provides full system support for gas compression and power generation equipment manufactured by others worldwide.

Strong market demand in each of the division's operating regions generated improved results in 2005, including record revenue and a year-over-year increase of 7% in completed work orders. Mechanical Service increased its share of both the reciprocating and screw compression service markets in Canada through its available inventory of parts and the superior product knowledge of its technicians.

Improved logistics, increased efficiencies resulting from the division's Central Service facility, strong relationships with major suppliers, together with an extensive inventory of genuine Original Equipment Manufacturers' parts, enabled Mechanical Service to overcome supply challenges and maintain an adequate inventory of parts in 2005.

In Asia-Pacific, Mechanical Service experienced growth in both the service and revamp aspects of its business during 2005. The power generation market, however, remained soft due to lack of access to a high speed, high efficiency engine, which is expected to be rectified in 2007. Growth in the region's service business came as a result of the division's strong position in the CBM market and through strong alliances with major producers. Operations located in Asia-Pacific are of strategic importance to Enerflex, as they also serve as sales offices for Enerflex Global.

The European business units also experienced a strong service market in 2005 through their focus on full system service of co-generation packages equipped with a variety of engines. Located in the Netherlands and Germany, European operations focused their sales efforts on Iveco diesel engines for industrial and marine applications. The shift in focus to these products and markets is a result of the current lack of a competitive engine product for traditional natural gas applications. This again is expected to be rectified in 2007 with the expected launch of new engine models from the division's principal engine supplier.

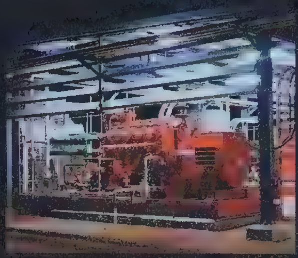
Strong market demand is expected to continue for Mechanical Service in 2006 pointing toward steadily improving results. Mechanical Service is also working to develop new product lines and expand existing ones, including adding maintenance and rebuild capabilities for screw compressor packages to support this growing market.

In 2006 Mechanical Service will pursue further opportunities for growth in each of its operating regions, with the Canadian operations supporting the VCC initiative by providing maintenance services.

Greg Negus
BRANCH MANAGER, PAMCO
Enerflex employee for 7 years

HIGHLIGHTS

- Completed 48,095 service work orders in 2005, compared to 44,896 in 2004.
- Achieved record high sales in 2005, increasing its revenue by 10% from 2004.
- Awarded major long-term service agreements in Canada and Australia.
- Increased market share and profitability in both the reciprocating and screw compression market.



Provided 10 major overhauls of compression packages for an Australian natural gas producer and secured a supply agreement for the parts and services for all of this producer's natural gas compression and power generation equipment.

Renewed a contract for the regular maintenance and major overhauls on 289 co-generation packages for an energy company in the Netherlands.

Strengthened relationships with major Canadian producers by signing agreements for preventative/predictive maintenance.

Electrical, Instrumentation & Controls

Electrical, Instrumentation & Controls provides a comprehensive range of electrical, instrumentation and controls technologies, products and services under the brand name Syntech to the energy industry, predominantly in western Canada.

Syntech posted improved results in 2005 despite a slow start to the year as a result of cold weather and unprecedented rainfalls in a number of areas. Steady increases in activity levels in the Western Canada Sedimentary Basin during the last two quarters of 2005 enabled this division to replace revenues that were suppressed due to the poor weather conditions earlier in the year.

The division contributed to Enerflex's international success in 2005 through its ability to provide electrical and instrumentation services and control technologies to international customers. Syntech enhances Enerflex's global capabilities with products and services that include electrical and control system design through to commissioning of turnkey facilities.

By focusing on further improving internal processes, optimizing inventory levels, enhancing relationships with customers and developing new products in the Technology and Controls group, Syntech will position itself for continued improvement in 2006.

The division's Technology and Controls group will play a key role in the execution of Enerflex's VCC initiative by providing web based remote monitoring and operating systems for compression and process equipment.

Makram Hamdan
COMPRESSOR CONTROL SPECIALIST, SYNTECH
Enerflex employee for 1 year

HIGHLIGHTS

- Continued financial improvement with revenue increasing by 5% over 2004.
- Developed applications to round out the Company's ability to remotely monitor field equipment, a necessary component of the VCC product line.

In 2005, Syntech provided electrical and instrumentation services for the relocation of an oil battery facility in Northern Alberta. Syntech provided start-up and commissioning assistance, project management, procurement, coordination of third party vendors and the supply of control panels from its Technology and Controls group.

Syntech provided the electrical and instrumentation expertise for two grassroots facility satellites, including the pre-wiring of skids, an existing satellite upgrade, megapads and wellsites, field construction, start-up and commissioning assistance which was carried out in northwest Alberta through to British Columbia, Canada.

Health, Safety and Environment

Enerflex is committed to its Health, Safety and Environment (HSE) program and believes that a strong HSE program benefits all Enerflex stakeholders. By pursuing its progressive approach to HSE, including regular communication with employees, training and policy development, the Company believes that injury, illness, and environmental or property damage caused in the workplace can be steadily reduced and virtually eliminated.

Employees regularly receive communications from the President of the Company. These highlight new policies, provide examples of proper HSE behaviour in specific situations and reinforce the belief that sound HSE behavior should permeate the everyday lives of employees.

HSE training is provided to every employee, irrespective of their position. Employees who engage in tasks deemed high-risk receive specialized training. The training provides information about Company policies, offers employees a course of action for situations that appear unsafe and reinforces the employee's right to refuse unsafe work. This training is a critical part of Enerflex's overall HSE program and culture.

HSE policy development is ongoing. Enerflex's HSE group is proactive when responding to regulatory changes affecting any Company operation. Necessary adjustments to policies occur in a timely manner and are consistently applied across the organization, not just the region legally affected. By applying changes across the entire organization it ensures that Enerflex not only meets regulatory standards, but in many cases exceeds them.

Enerflex is confident that its evolving HSE program will continue to strengthen the organization and deliver benefits for all stakeholders.

Christian LeJeune
QUALITY CONTROL INSPECTOR, COMPRESSION SERVICES
Enerflex employee for 9 years

Vera Stephenson
CREDIT AND COLLECTION MANAGER, PAMCO
Enerflex employee for 24 years

Rachel Moore
VICE PRESIDENT, HUMAN RESOURCES
Enerflex employee for 3 years

Corporate Governance

LETTER FROM THE BOARD OF DIRECTORS

In 2004 your Board of Directors made significant changes to its operation, ensuring that investors were protected through good governance and accountability. In 2005 the Board continued to strengthen the core of its operations, ensuring alignment of the interests of Board members with those of all stakeholders and safeguarding the Company's vision, mission and values.

Several initiatives were completed in 2005, including completing the documentation and evaluation of disclosure controls, creating a disclosure committee, evaluating and strengthening the Company's controls over information and technology resources, as well as developing stock ownership guidelines for the Board and senior management. The Board also spearheaded the establishment of a whistleblower communication program.

Additionally, the Board reviewed, amended and accepted its Charter as well as the Charters for each of its committees. The integrity of the Board is important for all stakeholders and each year the Board will uphold its responsibility by reviewing and amending its Charters.

Each of these measures ensures that the Board is in compliance with regulatory requirements and reinforces that your Board is committed to adopting emerging and best practices in Corporate Governance.

During the year the Toronto Stock Exchange Corporate Governance Guidelines were replaced by the National Policy 58-101 F Corporate Governance Guidelines. The full disclosure of these guidelines as they relate to Enerflex has been included in the 2005 Information Circular. We are pleased to inform you that your Company is in full compliance.

We would also like to take this opportunity to thank John R. King for his guidance and contributions over the past 3 years. Mr. King resigned from the Board in November 2005 to relocate to Europe. We wish him the very best in the future.

On behalf of the Enerflex Board of Directors, we look forward to the continued success of your Company.

Sincerely,

Robert C. Williams
LEAD DIRECTOR

P. John Aldred
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

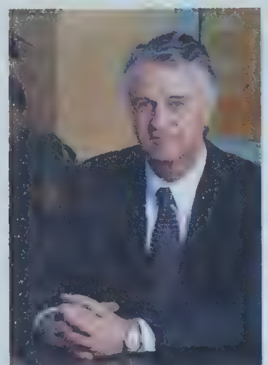
February 9, 2006

BOARD OF DIRECTORS

P. John Aldred
CHAIRMAN OF THE BOARD
CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ENERFLEX SYSTEMS LTD.
CALGARY, ALBERTA

Mr. Aldred is the founder, Chairman, and Chief Executive Officer of the Company. Mr. Aldred is the Chairman and founder of the Cadmus Foundation, a member of the board of directors for Careers: The Next Generation and is a past member of Alberta Junior Achievement. Mr. Aldred currently serves as a public member and Vice-Chair of SAIT's Board of Governors and a member of its Audit Committee.

Prior to founding Enerflex in 1980, Mr. Aldred was President and Chief Executive Officer of Pamco, a compressor systems manufacturing and servicing company. Pamco is now part of the Enerflex group of companies.



Patrick D. Daniel
INDEPENDENT DIRECTOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER, ENBRIDGE INC.
CALGARY, ALBERTA

Mr. Daniel has been the President and Chief Executive Officer of Enbridge Inc. since January 2001 and has over 35 years of experience in the energy industry. In addition to serving on Enerflex's Board of Directors, Mr. Daniel is also a director for several Enbridge subsidiary companies, including Enbridge Inc., Enbridge Income Fund, Enbridge Energy Partners and Enbridge Commercial Trust. He is also a director of EnCana Corporation and Synenco Energy Inc. Mr. Daniel earned his Bachelor of Science from the University of Alberta and his Masters of Science degree from the University of British Columbia, both in Chemical Engineering. Mr. Daniel is also a graduate of the Harvard advanced management program (AMP) and Richard Ivey management program.

Mr. Daniel has been an independent member of the Board of Directors since 1998 and is a member of the Audit Committee and the Corporate Governance Committee.

Douglas J. Haughey
INDEPENDENT DIRECTOR
PRESIDENT, DUKE ENERGY GAS TRANSMISSION WEST
CALGARY, ALBERTA

Mr. Haughey is the President, Duke Energy Gas Transmission West, responsible for Duke Energy Gas Transmission's western North American operations since 1999 including its major pipeline and processing business in western Canada. Mr. Haughey is also President and CEO of Duke Energy Income Fund and serves as a director of various Duke Energy subsidiary companies and Saskferco Products Inc. Early in his career, Mr. Haughey held senior executive positions with Engage Energy and predecessor companies, was with the Canadian Energy Research Institute and an instructor in the Faculty of Management at the University of Calgary. Mr. Haughey graduated from the University of Regina with a Bachelor of Administration degree in 1977 and received his MBA from the University of Calgary in 1982.

Mr. Haughey has been an independent member of the Board of Directors since 2002 and is a member of the Human Resources and Compensation Committee.

Robert B. Hodgins
INDEPENDENT DIRECTOR
INVESTOR AND CORPORATE DIRECTOR
CALGARY, ALBERTA

Mr. Hodgins is retired from a full time executive position following a career that spanned more than 25 years with several senior Canadian corporations. He is now an investor and corporate director. From 2002 to 2004, Mr. Hodgins served as the Chief Financial Officer of Pengrowth Energy Trust. Prior to this, Mr. Hodgins was Vice President and Treasurer of Canadian Pacific Limited, Chief Financial Officer of TransCanada Pipelines Limited from 1993 to 1998 and held various other positions at TransCanada commencing in 1981. Mr. Hodgins is a trustee of the Calpine Power Income Fund and a director of the Fairborne Energy Ltd. as well as AltaGas General Partnership Inc. Mr. Hodgins holds a Bachelor of Arts in Business from the Richard Ivey School of Business and is a Chartered Accountant.

Mr. Hodgins joined the Board of Directors in 2004 as an independent member and is the Chair of the Audit Committee.

Geoffrey F. Hyland
INDEPENDENT DIRECTOR
CONSULTANT AND CORPORATE DIRECTOR
TORONTO, ONTARIO

Mr. Hyland is the former President and Chief Executive Officer of ShawCor. Mr. Hyland retired from ShawCor in 2005 after a 37 year career with the company however, continues to serve as a consultant and as a director of the company. Mr. Hyland is also a member of the board of directors for Fortis Inc. and Exco Technologies Ltd. Mr. Hyland holds an Engineering degree from McGill and an MBA from York University.

Mr. Hyland has been an independent member of the Board of Directors since 1998 and is a member of the Corporate Governance Committee.

Nancy M. Laird
INDEPENDENT DIRECTOR
INVESTOR AND CORPORATE DIRECTOR
CALGARY, ALBERTA

Ms. Laird is a corporate director with more than 20 years of experience in the energy industry. Ms. Laird served as a Senior Vice-President, Marketing and Midstream for PanCanadian Energy from 1997 to 2002. Prior to joining PanCanadian, Ms. Laird was President of NrG Information Services Inc., a joint venture initiative involving four of North America's leading natural gas pipeline companies with a mandate to create a seamless flow of natural gas across North America. Currently Ms. Laird is a board member for the Alberta Electric System Operator, Canetic Resources Trust, Keyera (formerly KeySpan) Facilities Income Fund, Hull Child and Family Services and Calgary Technologies Inc. Ms. Laird holds a Bachelor of Arts degree (Honors) from the University of Western Ontario and earned her MBA from the Schulich School of Business at York University in Toronto.

Ms. Laird is the most recent addition to the Board of Directors as an independent member, joining in 2005, and is a member of the Audit Committee and Human Resources and Compensation Committee.

J. Nicholas Ross
INDEPENDENT DIRECTOR
CHAIRMAN, ROVER CAPITAL CORPORATION
TORONTO, ONTARIO

Mr. Ross is the founder and Chairman, President and Chief Executive Officer of Rover Capital Corporation, a private merchant banking organization, since 1996. From 1970 to 1996, Mr. Ross was a partner of Ernst & Young where he specialized in advising entrepreneurial businesses. From 1997 to 2004, Mr. Ross served as a Trustee of Atlas Cold Storage Income Trust formerly ACS Freezers Income Trust and had been Chairman of its subsidiary, Atlas Cold Storage Holdings Inc. His current directorships include two SCITI Trusts (Toronto), SCITI ROCS Trust (Toronto) and Butterfield & Company in Bermuda. Mr. Ross holds a Bachelor of Arts with Honours in English Language and Literature from the University of Toronto and a Masters of Arts in Economics from Cambridge University. He is a Chartered Accountant having earned the Ontario Gold Medal and Canadian Silver Medal on obtaining such designation in 1964.

Mr. Ross has been an independent member of the Board of Directors since the founding of Enerflex in 1980 and is a member of the Audit Committee and Chair of the Human Resources and Compensation Committee.

Robert C. Williams
INDEPENDENT DIRECTOR
MANAGING DIRECTOR AND HEAD OF EQUITY CAPITAL MARKETS AND SYNDICATION, SCOTIA CAPITAL INC.
TORONTO, ONTARIO

Mr. Williams is a Managing Director and Head of Equity Capital Markets and Syndication at Scotia Capital Inc. He has spent his entire business career of 37 years with Scotia Capital (formerly McLeod, Young & Weir & Co.). Mr. Williams is on the Board of Scotia Merchant Bank and a number of special purpose TSX listed companies that have been sponsored by Scotia Capital. He is also Chairman of the St. Andrew's College Foundation and is a member of that school's Board of Governors.

Mr. Williams has been an independent member of the Board of Directors since the founding of Enerflex in 1980, and is Chair of the Corporate Governance Committee and is the Lead Director.

GOVERNANCE OVERVIEW

Enerflex's Board of Directors is made up of eight members, seven of whom are considered independent. These eight members bring to Enerflex a variety of skills and experience that help the Company to realize its full potential and the Board as a whole to exercise its important corporate and legal responsibilities.

The Board is charged with the overall stewardship of the Company. It is the authoritative body entrusted to oversee the management and the strategic direction of the Company. In order to ensure the full accountability of the Board and Company, three Committees have been delegated various oversight responsibilities: the Audit Committee, the Corporate Governance Committee and the Human Resources and Compensation Committee.

Mandate

The mandate of the Board of Directors of Enerflex is the stewardship of the business and affairs of the Company on behalf of shareholders.

The Board seeks to discharge this responsibility by reviewing, discussing and approving the Company's strategic planning and organizational structure and by encouraging Company management to develop and enact a strategic plan and an organizational structure that enhance and preserve the business of the Company and its underlying value. In broad terms, the stewardship of the Company requires the Board to oversee the Company's processes, practices and decisions with respect to strategic planning, risk management and mitigation, senior management appointments, communication planning, safety and environment, and internal control integrity.

OUR VISION

We are a values-led team which will be recognized as the industry partner of choice by creating:

- A productive and safe work environment
- Employee pride
- Customer successes
- Vendor loyalty
- Sector-leading returns for shareholders

OUR MISSION

Through innovation, technical excellence and expertise, our team provides world-class products and services to the global energy sector.

OUR CORE VALUES

INTEGRITY..."Do the right thing"

- Be honest
- Be fair
- Be trustworthy
- Be respectful
- Be ethical

COMMITMENT..."Deliver on promises"

- Establish common goals and measure results
- Be safe
- Pursue excellence
- Understand customer needs, exceed expectations
- Be persistent

CREATIVITY..."Lead with innovation"

- Value and reward creative thinking
- Explore new ideas
- Implement positive change
- Be bold

SUCCESS..."Achieve sector-leading results"

- Optimize growth and financial performance
- Champion training, development and opportunity
- Communicate effectively
- Develop sustained, loyal relationships with all stakeholders
- Recognize and celebrate achievement

COMMITTEES

Enerflex's Board of Directors has appointed three committees, comprised of independent directors, with mandates and responsibilities as follows:

Audit Committee

The Audit Committee is established to fulfill applicable public company obligations respecting audit committees and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting including responsibility to:

- oversee the integrity of the Company's financial statements and financial reporting process, including the audit processes;
- oversee the process through which management designs, implements and maintains the Company's internal accounting controls, disclosure controls and the Company's procedures and compliance with related legal and regulatory requirements;
- monitor the management of the principal financial risks that could impact the financial reporting of the Company and ensure an appropriate mitigation strategy is adopted by management;
- oversee the appointment, qualifications and independence of the external auditors;
- oversee the work of the Company's financial management, internal auditors and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, the Board and Management.

MEMBERS: ROBERT B. HODGINS (CHAIR), PATRICK D. DANIEL, J. NICHOLAS ROSS, NANCY M. LAIRD

Corporate Governance Committee

The Corporate Governance Committee is responsible for overseeing and assessing the functioning of the Board, its committees and its members. The Committee oversees the development, implementation and assessment of effective corporate governance principles and guidelines. The Committee's responsibilities also include identifying candidates for director and recommending qualified director candidates for election at the next annual meeting of shareholders.

MEMBERS: ROBERT C. WILLIAMS (CHAIR), PATRICK D. DANIEL, GEOFFREY F. HYLAND

Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists the Board in discharging its oversight responsibilities relating to the compensation and retention of key senior management employees, and in particular the Chief Executive Officer, with the skills and expertise needed to enable the Company to achieve its goals and strategies at fair and competitive compensation and appropriate performance incentives. In addition, the Committee is responsible for producing an annual report on executive compensation for inclusion in the Company's annual proxy circular in accordance with applicable securities laws.

MEMBERS: J. NICHOLAS ROSS (CHAIR), DOUGLAS J. HAUGHEY, NANCY M. LAIRD

Evaluation

The Board of Directors shall review and reassess the adequacy of its mandate and each Committee shall evaluate its Charter at least annually and otherwise as it deems appropriate, and recommend any changes that it deems necessary. The performance of the Board of Directors in its entirety, of each Committee and of each individual board member shall be evaluated on an annual basis.

Attendance

	Board Meetings	Audit Committee	Human Resources and Compensation Committee	Corporate Governance Committee
P. John Aldred	6 of 6	---	---	---
Patrick D. Daniel	6 of 6	4 of 4	---	2 of 3
Douglas J. Haughey	6 of 6	---	4 of 4	---
Robert B. Hodgins	6 of 6	4 of 4	---	---
Geoffrey F. Hyland	5 of 6	---	---	3 of 3
John R. King[1]	2 of 5	---	1 of 4	---
Nancy M. Laird[2]	5 of 5	2 of 2	2 of 2	---
J. Nicholas Ross	6 of 6	4 of 4	4 of 4	---
Barbara J. Sparrow[3]	2 of 2	1 of 1	---	---
Robert C. Williams	6 of 6	---	---	3 of 3

[1] Mr. King resigned from the Board of Directors in November 2005.

[2] Ms. Laird was elected to the Board of Directors on April 14, 2005 and became a member of the Audit Committee and Human Resources and Compensation Committee in August 2005.

[3] Ms. Sparrow did not stand for re-election to the Board of Directors at the Company's April 14, 2005 Annual General Meeting.

For further information

To review any of the aforementioned documents, please visit the Corporate Governance section of Enerflex's website at www.enerflex.com, or see the Information Circular or Annual Information Form available at www.sedar.com.

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the accompanying notes to consolidated financial statements contained on pages 64 to 89 of this annual report. The results reported herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are presented in Canadian dollars unless otherwise stated. The MD&A has been prepared taking into consideration information that is available up to February 28, 2006 and focuses on key statistics from the consolidated financial statements, and pertains to known risks and uncertainties relating to the oil and gas service sector. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex Systems Ltd. ("Enerflex" or "the Company") in the future. The MD&A should be read in conjunction with the remainder of the 2005 annual report. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

The annual report, which includes the MD&A, the audited consolidated financial statements and accompanying notes thereto, is reviewed and approved by the Company's Audit Committee and its Board of Directors prior to publication.

Enerflex is a leading supplier of products and services to the global oil and natural gas production industry. The Company's core expertise lies in its ability to provide products and services to the industry segment that operates between the wellhead and the pipeline. Enerflex's primary products and services are: natural gas compression, power generation and process equipment for sale, rent or lease; hydrocarbon production and processing equipment and facilities; electrical, instrumentation and controls services; and a comprehensive package of field maintenance and contracting capabilities. Through our ability to provide these products and services in an integrated manner, or as stand-alone offerings, Enerflex believes it offers its global customers a unique value proposition.

Headquartered in Calgary, Canada, the Company has approximately 2,500 employees world-wide. Enerflex, its subsidiaries, interests in affiliates and joint-ventures, operate in Canada, Australia, the Netherlands, the United States, Germany, Pakistan, Egypt, Indonesia and Poland. The Company's common shares trade on the Toronto Stock Exchange under the symbol "EFX".

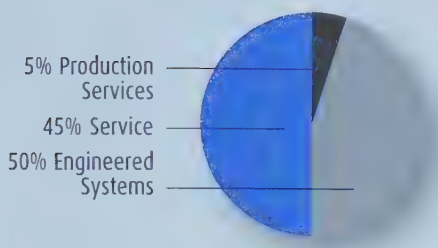
FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Certain statements containing words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe" and similar expressions, statements that are based on current expectations and estimates about the markets in which the Company operates and statements of the Company's belief, intentions and expectations about development, results and events which will or may occur in the future constitute "forward-looking statements" and are based on certain assumptions and analysis made by the Company derived from its experience and perceptions. Forward-looking statements in this MD&A include, but are not limited to: statements with respect to future capital expenditures, including the amount and nature thereof; oil and gas prices and demand; other development trends of the oil and gas industry; business strategy; expansion and growth of the Company's business and operations, including the Company's market share and position in the oilfield service markets; and other such matters. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by and on behalf of the Company. Such forward-looking statements are subject to important risks, uncertainties, and assumptions which are difficult to predict and which may affect the Company's operations, including, without limitations: the impact of general economic conditions; industry conditions, including the adoption of new environmental and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and gas prices; oil and gas product supply and demand; risks inherent in the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; increased competition; the lack of availability of qualified personnel or management; labor unrest; fluctuations in the foreign exchange or interest rates; stock market volatility, opportunities available to or pursued by the Company and other factors, many of which are beyond the control of the Company. The Company's actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, the Company will derive there-from. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

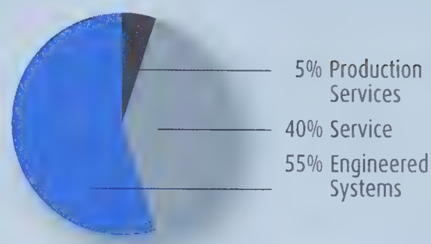
CONSOLIDATED RESULTS OF OPERATIONS

In 2005, the Company initiated a strategy intent on capitalizing on strong activity levels in the Canadian oil and natural gas industry, further expanding its international business and improving the operations of existing locations. In Canada, Enerflex intends to take advantage of its strong product lines and brand recognition of its existing business units, develop new compression and production processing products, further expand its rental fleet and introduce new service offerings. Internationally, the Company will approach the various markets in three manners. First, where the size and nature of the market warrant, Enerflex will expand or establish business units offering mechanical services, equipment rentals, engineering support, and project management services. Second, the Company will pursue projects ranging in size from $5 million to $100 million in regions where oilfield activity and natural gas infrastructure requirements present opportunities for turnkey projects. Enerflex will focus these efforts in Pakistan, Asia-Pacific and the Middle East. In these regions the Company will, individually or with partners, provide project engineering, facility construction, project management, and supervision and commissioning services for natural gas processing facilities requiring a combination of Enerflex's products. Third, in other markets the Company will position itself to expand the export sales of products manufactured in its North American based facilities.

2004 REVENUE
$557 million



2005 REVENUE
$671 million



The strong Canadian oil and gas service market and the initial steps in the implementation of this strategy have enabled Enerflex to: increase revenues by 20% to $670.6 million; maintain a solid gross margin of 21.8% while overcoming supply chain management concerns and the challenges of a strong labor market; increase its return on capital employed to 15.8% and generate earnings of $1.78 per basic common share, an increase of $0.34 per common share or 24%. Specific accomplishments include:

- The acquisition of HPS Group Pty Limited ("HPS") located in Perth, Australia in July of 2005 which contributed revenue of $25.9 million and expanded the ability of Enerflex to offer construction services, environmental products, project management and engineering support;
- Increased international revenues by 20%, generating $93.5 million in revenue from international operations and $83.9 million from export product sales;
- Increased Mechanical Service revenue by 10% and earnings before interest and income taxes by 21%;
- Increased Compression and Power revenue by 33% and earnings before interest and income taxes by 60%;
- The successful completion of international production and processing contracts in Australia, Pakistan, Russia and Bangladesh;
- Developed new compression products for the coal bed methane ("CBM") market, which were released in 2005, and for enhanced hydrocarbon production using flue gas injection, for release in 2006;
- Expanded the compression rental fleet to 100,000 horsepower in the third quarter of 2005;
- Continued the rationalization of the Company's sales offices and branch network to reduce costs and improve efficiencies; and
- Expanded the order backlog in the Company's Engineered Systems segment.

In the Canadian market, Enerflex has recently introduced two new service offerings. The first being HP*MAX*, a service which permits the Company's Compression Services business unit to monitor its customers' compressor performance, evaluate possibilities to improve such performance and then, through its field services, re-configure the customer's compression facility to improve production throughput and reduce the facility's operating cost.

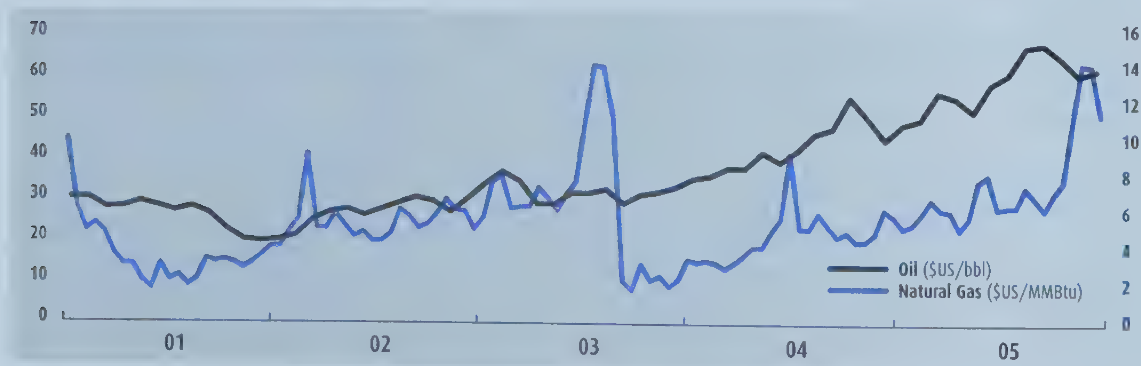
The second service offering is Variable Cost Compression. This new initiative arises from the natural expansion of Enerflex's existing compression rental, mechanical service and compression facility construction expertise. With Variable Cost Compression, Enerflex plans to leverage the existing legacy compression assets in the Western Canada Sedimentary Basin by providing the production company or energy trust with the opportunity to maintain strategic control of the facility and natural gas reservoir while reducing its capital and operating costs. Enerflex will own, operate and optimize the compression facility in return for a variable revenue stream dependent on the facility's operating time and performance. To provide the Company with access to the capability to monitor and operate a geographically dispersed fleet of compression facilities, in November 2005, Enerflex acquired a 40% equity interest in Total Production Services Inc., a Grande Prairie, Alberta company with access to over 2,000 oilfield service personnel.

Both these new services are receiving significant customer interest and are anticipated to add to the opportunity for further revenue growth in 2006.

ECONOMIC DRIVERS

The energy service sector, of which Enerflex is a part, is largely dependent upon the spending levels and activities of crude oil and natural gas (hydrocarbon) exploration and production companies. These spending patterns vary dramatically year-over-year and from one global region to another and are influenced by many factors including: the current and expected commodity prices of crude oil and natural gas; the availability, access and cost of transporting hydrocarbon products; current and anticipated global supply and demand estimates; and a wide array of economic and political factors. As a result, the demand for oilfield products and services can be volatile and is impacted by factors that are outside the control and influence of oilfield service companies. In addition to fluctuating activity levels, access to skilled personnel, the supply and availability of major components and repair parts, and the competitive nature of the oilfield service sector are other challenges that face the industry sector and Enerflex.

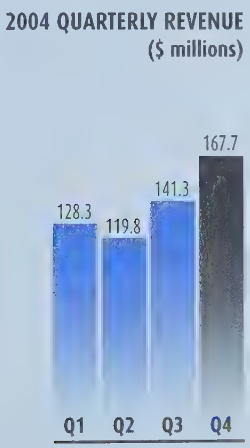
5 YEAR CRUDE OIL VERSUS NATURAL GAS



During the past three years, the increases in oilfield activity and natural gas infrastructure development in Canada and other international markets has benefited the Company, primarily through increased demand for Enerflex's products and services, and improved facility and personnel utilization rates. In addition to meeting the escalating demand for products and services, it has been necessary for Enerflex to maintain its competitive position and market share. This has been achieved by negotiating fair prices for Enerflex's products and services, expanding the global reach of the Company's export sales, developing and maintaining the Company's relationships with key customers and suppliers, maintaining the skill levels of Enerflex's people, and monitoring and adjusting to the practices of the Company's competitors. The ability to meet these competitive pressures within a reasonable cost structure will continue to be key to Enerflex's future success.

SUMMARY QUARTERLY STATISTICS

The oil and natural gas service sector in Canada, where Enerflex's operations are currently concentrated, has a distinct seasonal trend in activity levels which results from well-site access and drilling patterns being adjusted to take advantage of weather conditions. Generally, the Company's Engineered Systems segment (formerly known as its Fabrication segment) experiences higher revenues in the fourth quarter of each year, its Service segment experiences higher revenues in the first quarter of each year and its Production Services segment (formerly known as the Leasing segment) experiences stable revenues throughout the year, impacted by both the Company's, and its customers', capital investment decisions. Variations from this trend usually occur when hydrocarbon energy fundamentals are either improving or deteriorating.



As in 2004, the Company recorded stronger earnings in each quarter of 2005, as compared to the same quarter in prior year. The improved earnings can be attributed to increased natural gas infrastructure and maintenance spending by oil and natural gas producers in a period of high commodity prices, the acquisition of HPS in July 2005 and cost and process efficiencies generated by the Company offset by the timing of various large international production and processing projects.

(Thousands, except percent and per share amounts) (unaudited)	**2005** Q4	Q3	Q2	Q1	2004 Q4	Q3	Q2	Q1
Revenue	**$203,108**	**$162,727**	**$157,088**	**$147,689**	$167,677	$141,293	$119,833	$128,274
Gross margin	**44,674**	**34,993**	**34,750**	**31,528**	37,391	30,610	27,744	29,465
Gross margin (%)	**22.0**	**21.5**	**22.1**	**21.3**	22.3	21.7	23.2	23.0
Operating margin[1]	**20,242**	**15,827**	**14,860**	**11,705**	18,092	11,535	9,215	11,225
Operating margin (%)[1]	**10.0**	**9.7**	**9.5**	**7.9**	10.8	8.2	7.7	8.8
Net income:	**$ 13,714**	**$ 9,832**	**$ 9,164**	**$ 7,382**	$ 11,406	$ 7,726	$ 5,784	$ 7,143
Per common share – basic	**$ 0.61**	**$ 0.44**	**$ 0.41**	**$ 0.33**	$ 0.51	$ 0.35	$ 0.26	$ 0.32
Per common share – diluted	**$ 0.60**	**$ 0.43**	**$ 0.41**	**$ 0.33**	$ 0.51	$ 0.34	$ 0.26	$ 0.32
EBITDA[1]	**25,140**	**20,743**	**19,277**	**16,235**	22,713	16,239	13,535	15,666

FOR THE THREE MONTHS ENDED DECEMBER 31, 2005

During the fourth quarter of 2005, the Company benefited significantly from the opportunities available in the current business environment, the acquisition of HPS and the commencement of construction activity associated with the Company's previously announced contract to provide a $40 million natural gas processing facility in Egypt. Of this amount, $25 million will be directly attributed to Enerflex and $15 million will be earned by its joint-venture company Presson Descon International (Private) Limited ("PDIL").

[1] Operating margin, operating margin percent and earnings before interest, taxes, depreciation and amortization ("EBITDA") are non-GAAP (Generally Accepted Accounting Principles) earnings measures that do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

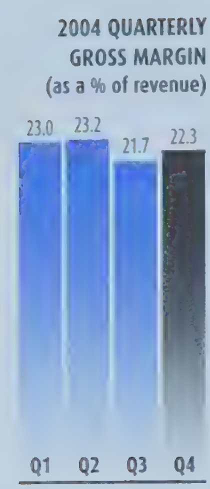
Enerflex calculates operating margin, operating margin percent and EBITDA as follows:

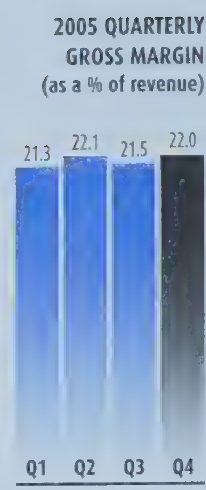
Operating margin for December 31, 2005 ($ thousands)	Three months ended	Twelve months ended
Gross margin	$ 44,674	$ 145,945
Selling, general and administrative expenses	23,657	85,523
Foreign currency losses (gains)	775	(2,212)
Operating margin	$ 20,242	$ 62,634
Operating margin percent		
Operating margin divided by revenue (%)	10.0	9.3
EBITDA for December 31, 2005 ($ thousands)		
Earnings before interest and income taxes	$ 20,814	$ 65,256
Depreciation and amortization	4,326	16,139
EBITDA	$ 25,140	$ 81,395

Enerflex generated net income for the three months ended December 31, 2005 of $13.7 million ($0.61 per common share) from revenue of $203.1 million. This represents an increase in net income of $2.3 million ($0.10 per common share or 20%) as compared to the same period in 2004. Revenue generated in the fourth quarter increased by $35.4 million or 21% as compared to the three month period ended December 31, 2004. The HPS acquisition added $15.2 million in revenue for the quarter. Other revenue improvements were most notable in the Compression and Power division, as a result of increased customer demand; and in the Electrical Instrumentation & Control ("EI&C") division which experienced increased electrical construction project activity as compared to the fourth quarter of 2004. The Mechanical Service division experienced modest revenue improvements due to moderately higher activity levels in the quarter as compared to the same period of 2004. The Company's revenue in the Production Services segment was essentially unchanged as increases arising from a larger rental fleet were offset by lower utilization rates during the period.

The above revenue increases were offset by reduced revenue in the Production and Processing division, excluding HPS, due to lower international project revenue during the quarter as compared with the same period in 2004. This resulted from the timing and stage of completion of current year projects differing from those which were in progress during the fourth quarter of 2004.

Gross margin for the three months ended December 31, 2005 was $44.7 million or 22.0% of revenue as compared to $37.4 million or 22.3% of revenue for the three months ended December 31, 2004, an increase of $7.3 million. The slightly lower gross margin percentage was a result of a higher portion of revenues being generated from the Company's Engineered Systems segment, which generates lower margins on revenue as compared to Enerflex's Service and Production Services segments, lower international project revenue and higher input costs arising from increases in the prices of parts and components, utility prices and raw material costs, such as steel.





Selling, general and administrative ("SG&A") expenses were $23.7 million or 11.6% of revenue during the three months ended December 31, 2005, compared with $20.5 million or 12.2% of revenue in the same period of 2004. The $3.2 million increase in SG&A expenses during the quarter, as compared to the same period in 2004, is a result of: $1.5 million in costs resulting from the inclusion of HPS; an increase of $0.3 million in stock-based compensation expenses; an additional $0.2 million in costs associated with its ongoing program for adopting compliance measures for Multilateral Instrument 52-109 and 52-111; increased bad debt expense of $0.7 million; higher amortization expense for intangible assets of $0.4 million; and increased information technology costs of $0.3 million. These increases were partially offset by reduced bonus accruals in 2005 over the same period of 2004, as a result of the Company's change from funding retirement plans through profit sharing to a defined contribution group retirement savings plan.

Operating margin[1] assists the reader in understanding the net margin contributions made from the Company's core businesses after considering all SG&A expenses and the impact of the Company's foreign exchange hedging strategy. For the three months ended December 31, 2005, Enerflex produced an operating margin[1] of $20.2 million, or 10.0% of revenue, as compared to an operating margin percentage[1] of $18.1 million, or 10.8% of revenue, for the same three month period in 2004. The reduction in operating margin percentage[1] for the quarter as compared to 2004 occurred as a result of the same factors contributing to the reduced gross margin percentage and increased SG&A expenses. The foreign exchange loss during the quarter resulted primarily from the Company's hedging strategy and changes in the value of the Euro and U. S. dollar as compared to the Canadian dollar during the period.

Income before interest and income taxes totalled $20.8 million for the fourth quarter of 2005, as compared to $19.0 million for the same period in 2004, an increase of $1.8 million, or 9%.

During the fourth quarter of 2005, Enerflex increased its net income by $2.3 million to $13.7 million over the same period of 2004.

[1] Operating margin, operating margin percent and EBITDA are non-GAAP earnings measures that do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

Summary of Annual Highlights

(Thousands, except percent and per share amounts) (unaudited) For the years ended December 31	**2005**	2004	2003
Revenue	**$670,612**	$557,077	$515,528
Gross margin	**145,945**	125,210	103,959
Gross margin percent of revenue (%)	**21.8**	22.5	20.2
Selling, general and administrative expenses	**85,523**	77,372	72,499
Selling, general and administrative expenses %	**12.8**	13.9	14.1
Operating margin[1]	**62,634**	50,067	33,445
Operating margin percent[1] of revenue (%)	**9.3**	9.0	6.5
Earnings before interest and income taxes	**65,256**	53,051	36,504
Net Income	**40,092**	32,059	20,383
EBITDA[1]	**81,395**	68,153	51,184
EBITDA[1] percent of revenue (%)	**12.1**	12.2	9.9
Net capital spending	**$ 14,783**	$ 30,429	$ 6,511
Earnings per share (basic)	**$ 1.78**	$ 1.44	$ 0.92
Earnings per share (diluted)	**$ 1.77**	$ 1.43	$ 0.91
Return on capital employed (%)[2]	**15.8**	14.0	10.0
Return on average equity (%)[3]	**12.8**	11.2	7.6
Cash dividends per common share	**$ 0.40**	$ 0.40	$ 0.40
Total assets	**564,315**	486,865	457,674
Total long-term liabilities	**$ 78,598**	$ 63,191	$ 63,561

Financial Position and Ratios

(as at December 31)	**2005**	2004	2003
Working capital	**$112,150**	$ 86,587	$ 82,830
Working capital ratio	**1.72**	1.69	1.69
Total debt, net of cash	**$103,264**	$ 80,049	$ 89,272
Total net debt to total net debt plus equity ratio (%)	**23.9**	21.2	24.5
Total net debt to EBITDA[1]	**1.27**	1.17	1.74
Earnings before interest and income taxes to interest expense ratio	**14.06**	13.86	6.91

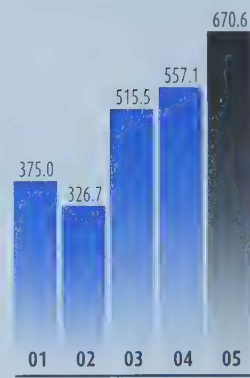
[1] Operating margin, operating margin percent and EBITDA are non-GAAP earnings measures that do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

[2] Return on capital employed is a non-GAAP measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. Return on capital employed is calculated as pre-tax income plus interest expense divided by the simple average of capital employed at the beginning of the year and at the end of each quarter. Capital employed is the sum of shareholders' equity plus current and long-term bank indebtedness.

[3] Return on average equity is a non-GAAP measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

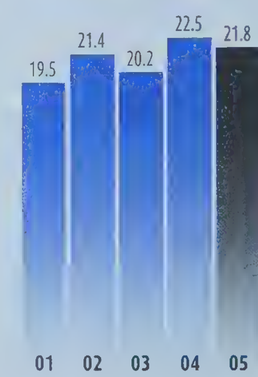
Consolidated revenue for the year ended December 31, 2005 totalled $670.6 million, an increase of $113.5 million, or 20%, as compared to 2004 consolidated revenue of $557.1 million. The revenue growth in 2005 was generated in the Company's Engineered Systems (formerly Fabrication) segment, which increased revenue by $91.1 million, or 33%, the Service segment, which increased revenue by $19.4 million, or 8% and the Production Services (formerly Leasing) segment which increased revenue by $3.0 million, or 11%. Engineered Systems' Canadian revenue improved by $67.9 million as a result of an increase in high horsepower compressor package sales arising from an improved market share in certain aspects of the market, such as screw compression and compressor re-configuration services, and higher customer demand, including demand for Enerflex's production and processing products, the standard Back to Basics ("BTB") compression product and products designed for the CBM production market segment. Engineered Systems' international revenue also increased by $23.2 million as a result of the acquisition of HPS and higher export sales both offset in part by lower international project revenue in the Production and Processing division. Service revenue increases were driven by strong customer demand for engine maintenance and overhaul services in all global regions and an increase in the number of contracts awarded to Enerflex's Canadian based EI&C division. Production Services' revenues increased as a result of Enerflex's investment in additional rental compression horsepower, partially offset by lower equipment utilization rates.

CONSOLIDATED REVENUE
($ millions)



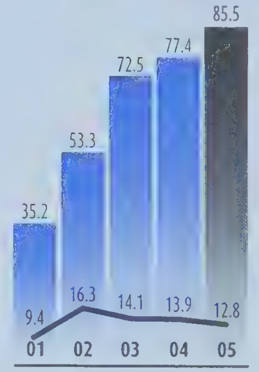
Gross margin has increased to $145.9 million or 21.8% of revenue in 2005 as compared to $125.2 million or 22.5% of revenue in 2004. The increase in gross margin of $20.7 million resulted from increasing revenues of $113.5 million. As eighty percent of the increase in revenues occurred in the Engineered Systems segment, the Company's overall gross margin percentage decreased from 22.5% in 2004 to 21.8% in 2005. This occurred as revenue from the Engineered Systems segment tends to have lower margins than either the Service or Production Services segments. The proportion of revenue generated in the Engineered Systems segment increased from 50.3% of consolidated revenue in 2004 to 55.3% in 2005. Other factors that positively affected Enerflex's gross margin were: modest increases in the price of the Company's products and services, improved utilization of the Company's Engineered Systems facilities, and increases in the revenue generated from Enerflex's compressor rental fleet. Gross margin was reduced by obsolescence provisions of $0.7 million in the Power business unit and lower international project revenue in the Production and Processing division, excluding HPS. Gross margin improvement continues to be a focus of management's attention as exhibited by the improvement in the gross margin percentage over recent years. In 2005, Enerflex produced a gross margin of 21.8% as compared to 22.5% in 2004, 20.2% in 2003, 21.4% in 2002 and 19.5% in 2001.

GROSS MARGIN
(% of revenue)



Selling, general and administrative expenses were $85.5 million in 2005, compared with $77.4 million in 2004 and $72.5 million in 2003. Total SG&A costs increased in 2005 over both 2004 and 2003 as a consequence of the continued growth of Enerflex, the expanding scope of its operations, increased regulatory and compliance obligations and higher variable costs. SG&A has decreased as a percentage of revenue. In 2005, SG&A amounted to 12.8% of revenue as compared to 13.9% in 2004 and 14.1% in 2003.

SELLING, GENERAL AND ADMNISTRATIVE EXPENSES
($ millions)
vs % of REVENUE



The increase in SG&A expense in 2005 of $8.2 million related to the acquisition of HPS which incurred its own expenditures totaling $3.0 million since the July 2005 acquisition date, $1.1 million increase in stock based compensation expense, $1.1 million increase in bad debt expense following a significant recovery of prior period provisions in 2004, $0.8 million rise in the amortization of intangible assets, $0.7 million in increased information technology expenses, and $1.7 million due to increased regulation and compliance costs associated with the Company's project for implementing the requirements of Multilateral Instrument 52-109 and 52-111. These were partially offset by a reduction in profit share and management bonus, as a result of the Company's change from funding retirement plans through profit sharing to a defined contribution group retirement savings plan.

The increase in SG&A expenses in 2004 of $4.9 million, or 6.7%, over 2003 was a result of increases in bonus and profit sharing accruals of $2.3 million, in SG&A expenditures related to international expansion of $1.1 million, stock-based compensation of $1.0 million, Multilateral Instrument 52-109 compliance costs of $0.9 million, variable selling expenses of $0.6 million and increased activity levels. These were offset by a recovery of a $1.2 million provision for a loss on a legacy international contract recorded in 2003 and a reduction of $0.6 million in restructuring and employee departure costs.

In 2004, Enerflex adopted the fair value method of accounting for stock options and other stock-based compensation. Adoption of the policy resulted in a reduction of opening retained earnings of $0.7 million on January 1, 2004. The compensation expense related to Stock Options, Restricted Share Units, Deferred Share Units and Phantom Stock Options totalled $2.1 million in 2005 and $1.0 million in 2004.

In 2005, the Board of Directors of Enerflex adopted a Phantom Stock Option Plan or Stock Appreciation Rights ("SAR") in order to provide stock-based compensation to senior managers of the Company's Australian subsidiaries and better align the total compensation offered to those employees with the interests of the Company's shareholders. The terms and conditions of the SAR plan mirror the terms of the Company's Stock Option Plan with the exception that upon exercise of a SAR the holder is only entitled to a cash settlement of the difference between the market value of a common share of Enerflex on the exercise date and the exercise price of the SAR as set on the grant date.

Foreign exchange gains totalled $2.2 million in both 2005 and 2004. Most international Engineered Systems work is quoted in U.S. dollars and in some cases, the Euro. As the U.S. dollar depreciates, the Company's Canadian dollar revenue falls. The U.S. dollar depreciated by 3% against the Canadian dollar during 2005, as compared to 7% in 2004. The Euro depreciated by 15% against the Canadian dollar during 2005, as compared to a negligible change in 2004.

In mid-2003, Enerflex instituted a program to mitigate the impact of exchange rate fluctuations by matching expected future U.S. dollar-denominated cash inflows with U.S. dollar liabilities, principally bank debt and accounts payable. For example, when Enerflex is awarded a U.S.$1 million contract, it converts an equivalent amount of its bank debt from Canadian to U.S. dollars. The debt is repaid when Enerflex receives payment from its customer. The result is that any gain or loss in margins resulting from exchange rate fluctuations is offset by gains or losses in U.S. dollar liabilities. At December 31, 2005, the Company's bank debt included U.S.$43.8 million of bank overdrafts and LIBOR loans, compared to U.S.$29.6 million as at December 31, 2004.

Enerflex does not hedge its exposure to investments in foreign subsidiaries, which are largely self-sustaining. Exchange gains/losses on net investments in foreign subsidiaries are accumulated in shareholders' equity as a "cumulative translation adjustment". The cumulative translation adjustment debit increased from $0.4 million at the end of 2004 to $6.3 million at the end of 2005. This change is the result of the decline of the Euro, Australian dollar and U.S. dollar against the Canadian dollar. The Australian dollar depreciated by 9% against the Canadian dollar during 2005, as compared to 4% in 2004.

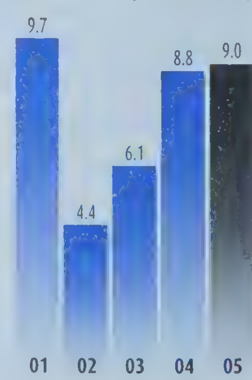
Operating margin[1] assists the reader in understanding the net margin contributions made from the Company's core businesses after considering all SG&A expenses and the impact of the foreign exchange hedging strategy discussed above. During 2005, Enerflex produced an operating margin[1] of $62.6 million or 9.3% of revenue, as compared to an operating margin[1] of $50.1 million, or 9.0% of revenue in 2004. Operating margin[1] in 2003 was $33.4 million or 6.5% of revenue.

Interest costs totalled $4.6 million in 2005, compared with $3.8 million in 2004, an increase of $0.8 million. Interest costs in 2005 were higher than those in 2004 as a result of debt incurred to finance the increased working capital needs of the Company and its acquisition of HPS. Enerflex's total borrowings averaged $92.7 million in 2004 as compared to an average of $99.4 million in 2005. Enerflex has benefited from continued low interest rates as its bank debt is subject to floating rates. The Company pays its lenders a margin over the Canadian bankers' acceptance rate, or the U.S. LIBOR rate, which varies depending on the ratio of debt to EBITDA[1] for the trailing twelve months. Over the past year, Enerflex has maintained a debt to EBITDA[1] ratio of between 1.29 to one and 1.69 to one. As at December 31, 2005, the debt to EBITDA[1] ratio was 1.69 to one and as such the lending margin for the initial months of 2006 will be 1.5% on the operating loan and 2.0% on the term loan.

Income tax expense was $20.5 million in 2005 compared with $17.2 million in the prior year. The increase in tax expense is a result of higher pre-tax earnings in the current year. The effective rate of income tax in 2005 was 33.9%, compared to 34.9% in 2004. The Company expects the effective tax rate in 2006 will continue to be less than 34%.

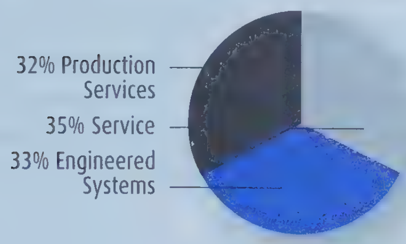
Net income for 2005 increased by 25% to $40.1 million compared to $32.1 million in 2004. On a per share basis, 2005 net income increased by 24% to $1.77 per diluted common share as compared with $1.43 per diluted common share in 2004.

NET INCOME BEFORE INCOME TAX (% of revenue)

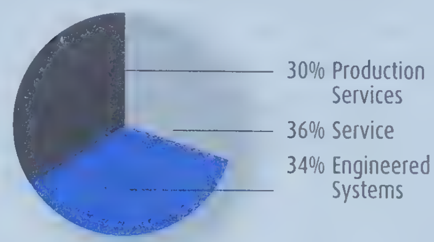


[1] Operating margin, operating margin percent and EBITDA are non-GAAP earnings measures that do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

2004 INCOME
$53.1 million before interest and income taxes



2005 INCOME
$65.3 million before interest and income taxes



SEGMENTED RESULTS

Enerflex has three business segments: Service, Engineered Systems and Production Services, which operate as follows:

1. Service is comprised of two divisions:
   - Syntech's electrical, instrumentation and controls ("EI&C") business in Canada; and
   - Mechanical Service, with business units operating in Canada (Pamco and Jiro Service), the Netherlands (Landré Ruhaak bv), Australia (Gas Drive Systems Pty Limited) and Indonesia (PT Gas Drive Systems Indonesia) and its interest in S&L Energie Projekte GmbH, a 51% owned joint-venture in Germany.
2. Engineered Systems is comprised of two divisions:
   - Compression and Power has five business units: EFX Compression located in Calgary, Alberta, providing custom and standard compression packages for both reciprocating and screw compressor applications above 800 horsepower; Power, which provides electrical generation equipment in the under 10 mega-watt market; EFX Compression USA in Odessa, Texas, packages specialty natural gas applications; Jiro Compression, located in Stettler, Alberta, focusing on lower horsepower (sub 800 hp) screw compressor products; and Compression Services, located in Calgary, Alberta, re-engineering and refurbishing legacy compression equipment; and,
   - Production and Processing has three business units: Presson's modular natural gas processing equipment manufacturing facility in Nisku, Alberta; Mactronic's waste gas systems which are designed and fabricated in Red Deer, Alberta; HPS Group Limited, located in Perth, Western Australia; and the Company's 46.5% interest in the Presson Descon International (Private) Limited ("PDIL") joint-venture, operating in Pakistan; and,
3. Production Services: providing compression, power generation and natural gas processing equipment rentals, primarily in Canada. This division will also supply Enerflex's newest service offering of Variable Cost Compression in 2006.

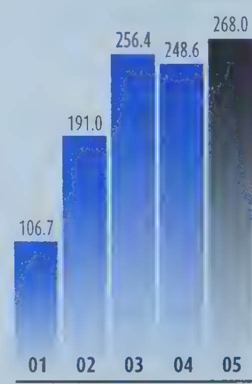
SERVICE

The Service business segment provides a complete line of mechanical, and electrical, instrumentation and controls services to the oil and gas industry through an extensive branch network in Canada, Germany, the Netherlands, Australia and Indonesia. Service is the Company's second largest business segment. It employs 42% of staff, holds 32% of the total assets, generates 40% of the Company's revenue and produces 36% of Enerflex's income before interest and income taxes. Key performance metrics include labour utilization, revenue, gross margin percent and income before interest and income taxes.

Enerflex, through various business units, is an authorized distributor for Waukesha engines and parts in Canada, Australia, Indonesia, Papua New Guinea, the Netherlands, Germany, Portugal, Poland and Spain. Mechanical Service revenues tend to be fairly stable as ongoing equipment maintenance is generally required to preserve the customer's natural gas production. EI&C services are provided in Canada through Syntech where revenues are more cyclical as they are generated from both maintenance spending and from infrastructure investment. In 2005, Enerflex established a small presence in Poland to take greater advantage of the Waukesha distributorship awarded to it in this country and closed a number of its North American branches due to insufficient returns.

(Thousands) Years ended December 31	**2005**	2004
Service segment revenue	**$283,454**	$ 264,740
Intersegment revenue	**(15,411)**	(16,105)
Revenue	**$268,043**	$ 248,635
Gross margin	**$ 74,567**	$ 67,050
EBITDA[1]	**$ 26,632**	$ 21,720
Income before interest and income taxes	**$ 23,208**	$ 18,346

SERVICE REVENUE
($ millions)



Service revenue was $268.0 million in 2005 and comprised 40% of consolidated revenue. This compares to $248.6 million and 45% of consolidated revenue in 2004. Mechanical Service generated 58% of the segment's revenue in 2005 and 57% in 2004. EI&C contributed 42% of the segment's revenue in 2005 and 43% in 2004. The increase in segment revenue of 8%, or $19.4 million, was a result of increased international revenue, higher demand for parts and services and strong oilfield service activity in Canada. Gross margin for the segment totalled $74.6 million, or 27.8%, as compared to $67.1 million or 27.0% in 2004. The increase in gross margin percent was caused by higher demand for the Company's services and increased utilization rates. In general, pricing increases were offset by increases in input costs, such as parts, materials, personnel costs and the costs associated with responding to supply chain management issues that arise in periods of high demand for these products. Income before interest and income taxes increased from 2004 by $4.9 million, or 27%, to $23.2 million as a result of these factors. The improvement in the profitability of the segment from 7.4% of revenue to 8.7% of revenue was due to reduced branch and administrative costs in the segment and the leveraging of existing fixed costs in a period of high oil and gas activity.

Mechanical Service

Mechanical Service revenue for 2005 was $154.9 million, or 10% higher than 2004 revenue of $141.1 million. In Canada, which accounted for 67% of the division's revenue, as compared to 68% in 2004, sales increased by 8% from 2004 as a result of increased utilization rates, increased customer demand and modest price increases for parts and services. International revenue also increased by 14% over 2004. The increase in international revenue resulted from higher utilization and new maintenance contracts in Australia and increased service and engine sales in Europe and Indonesia. During 2005, the division closed two branch locations as returns generated and opportunities available in the future were not considered sufficient for the operation's required cost structure.

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Gross margins for Mechanical Service increased by $4.8 million or 11% over 2004, though, as a percentage of revenue, the gross margin percentage was relatively constant. Increased customer demand accounted for the increase in gross margin with pricing increases offsetting the increase in costs of parts and personnel associated with the services. The division's income before interest and income taxes in 2005, increased by $3.1 million, or 21% as compared to 2004, as it leveraged its existing fixed branch and administrative services to meet the expanding demands of its customers. A continuing challenge to achieving improved profitability in 2006 will be the timely availability of certain Original Equipment Manufacturer ("OEM") components and repair parts, and the availability and access to a sufficient number of skilled employees, both of which will be in steady demand given anticipated activity levels in the oil and gas services industry.

Electrical, Instrumentation & Controls

The EI&C division continued to improve its gross margin as a percentage of revenue in 2005. During the year, EI&C generated revenue of $113.1 million, an increase of $5.5 million, or 5% as compared to $107.6 million in 2004. The EI&C business in Canada is highly competitive. Consequently, this division realizes lower margins than the Mechanical Service division and as such, it requires a focused and disciplined approach to the bidding and execution of the services provided. In 2004, the division intentionally reduced the scope of contracts it would pursue and focused its efforts on obtaining projects with higher margin potential and reducing the cost of maintaining the branch infrastructure requirements throughout Alberta, Saskatchewan and northeast British Columbia. By continuing this strategy in 2005, and with the increase in demand for the division's services, its gross margin increased by $2.7 million or 12% as compared to 2004. The division's earnings before interest and income taxes increased by $1.8 million and were 51% higher in 2005 than in 2004. In 2005, as part of the restructuring of its branch network, the EI&C division closed three branch locations.

In 2006, this division will continue to seek ways to improve its efficiency and increase its net income before interest and income taxes through cost reduction, process improvement and revenue enhancement initiatives, without reducing its margin potential.

ENGINEERED SYSTEMS

The Engineered Systems business segment engineers, fabricates and assembles standard and custom-designed compression packages, production and processing equipment and facilities, and power generation systems. In 2005, in order to more accurately describe the segment's activities, its name was changed from Fabrication to Engineered Systems. The key performance metrics for this business segment are market share, plant utilization, overhead application rates and gross margin as a percentage of revenue. Engineered Systems is the Company's largest business segment. It employs 55% of staff, holds 47% of the total assets, generates 55% of the Company's revenue and produces 34% of Enerflex's income before interest and income taxes.

On July 6, 2005 the Company acquired 100% of the outstanding shares of HPS Group Pty Limited of Perth, Australia. HPS is a specialized engineering, contracting and project management organization, servicing a wide range of energy and other industrial customers. The total purchase consideration, including transaction costs of approximately $0.8 million, was $25.2 million. Approximately $2.8 million was paid through the issuance of 122,176 common shares of Enerflex and the remaining $21.6 million was paid in cash and financed through additional drawings on the Company's existing credit facilities. Subject to the achievement of certain performance measures and future earnings targets in HPS covering the twelve months following the acquisition, a maximum contingent consideration of $5.0 million Australian could be paid in July 2006. The acquired assets include: goodwill of $11.0 million, intangible assets of $5.9 million, cash and cash equivalents of $5.6 million, capital assets of $2.2 million, non-current liabilities of $1.0 million and working capital of $1.5 million. HPS forms an important component of this segment and the Production and Processing division.

Engineered Systems' business tends to have more volatility in revenue, gross margin and income before interest and income taxes than Enerflex's other business segments. Revenues are derived primarily from the investments made in natural gas infrastructure by producers. Capital spending by Enerflex's customers was high in 2001, dropped sharply in 2002 and early 2003, increased in late 2003 and continued to grow throughout 2004 and 2005. It is presently estimated by industry commentators that this increased investment rate will continue in 2006. Factors expected to positively affect this include: increased investments in Canadian oil sands development projects; expansion of the Australian natural gas distribution system; the need for additional international natural gas processing facilities; and CBM production in North America and Australia.

(Thousands) Years ended December 31	**2005**	2004
Engineered Systems segment revenue	**$393,703**	$319,503
Intersegment revenue	**(22,551)**	(39,460)
Revenue	**$371,152**	$280,043
Gross margin	**$ 51,143**	$ 40,040
EBITDA[1]	**$ 27,696**	$ 22,102
Income before interest and income taxes	**$ 22,460**	$ 17,469

ENGINEERED SYSTEMS REVENUE ($ millions)

Engineered Systems' revenue totalled $371.2 million in 2005 and comprised 55% of consolidated revenue. This compares to $280.0 million and 50% of consolidated revenue in 2004. Compression and Power generated 68% of the segment's revenue in both 2005 and 2004. Production and Processing contributed 32% of the segment's revenue in both years. The increase of $91.1 million, or 33%, in segment revenue for the year was a result of the acquisition of HPS, increased domestic revenue in the Production and Processing division, increased demand for the Company's high horsepower compression products, the introduction of new products and modest increases in the pricing of the segment's products. Gross margin for the segment totalled 13.8%, or $51.1 million, as compared to 14.3% in 2004. The increase in gross margin of $11.1 million, or 28%, was a result of the same factors that improved the segment's revenue, offset by a $0.7 million obsolescence provision in the Power business unit's inventory. This provision eliminates the anticipated exposure the Company could have with respect to product lines that were discontinued. Income before interest and income taxes increased by $5.0 million, or 29%, to $22.5 million as a result of the above-mentioned factors.

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Compression and Power

The Compression and Power division contributed revenue of $252.8 million, an increase of $63.2 million, or 33% over the prior year. International revenue in the division totalled $49.8 million in 2005, as compared to $40.2 million in 2004. Expanded product ranges for both reciprocating and screw compression applications, increased customer demand for compression equipment, increasing customer requirements for in-field compression refurbishment of legacy compression assets and modest pricing improvements accounted for the increased revenue. While definitive market share data is difficult to obtain, Enerflex estimates that its Canadian large horsepower compressor package market share was constant in 2005 as compared with 2004. Though pricing leverage was difficult to achieve in 2005, due to the highly competitive nature of this business segment, pricing appears to be improving for future deliveries. The apparent improvement in pricing leverage is presently attributed to the high levels of customer demand, concerns over the lead times associated with major component parts and the introduction of expanded product offerings that better suit the customers' changing compression requirements, such as high horsepower screw compression packages and in-field optimization services for existing compression assets.

During 2005, gross margin increased by $8.0 million, or 31% as a result of increased revenue, improved plant utilization and lower overhead rates. These were offset by increased component, material and personnel related costs, obsolescence provisions in the power product line and costs associated with the design and production of new products and services. At present, Enerflex owns approximately 370,000 square feet of compression shop floor space in North America and during 2005 management estimates that the average utilization rate, based on the theoretical plant capacity in labour hours, was 67% as compared to 58% in 2004. Despite increases in overhead costs, increased customer demand and utilization of the facilities reduced overhead costs per hour by 1%, as compared to 2004. The Compression and Power division's income before interest and income taxes increased by 60% as a result of the factors mentioned above.

In 2006, the division will continue to expand its product lines in both reciprocating and screw compressor applications and will continue the introduction of additional services through its Compression Services business unit to further optimize its customers' compression assets. A continuing challenge to achieving improved profitability in 2006 will be the timely availability of certain OEM components and repair parts, and the access to and availability of engineers and skilled trade personnel, both of which will be in steady demand given the anticipated activity levels in North America.

Production and Processing

The Production and Processing division contributed revenue of $118.4 million, an increase of $27.9 million, or 31% over the prior year. While definitive market share data is difficult to obtain, Enerflex estimates that it has maintained its domestic and international market share, and through the acquisition of HPS, Enerflex has increased its market share in Australia. In each market segment competition remains strong. The increase in the division's revenues were generated $25.9 million from the acquisition of HPS and $14.3 million from domestic markets, including $3.2 million from contracts and products with respect to the development of northern Alberta's oil sands production. In 2005, international revenue, excluding HPS, declined by $12.3 million, as compared to 2004. Last year, the division was nearing completion on certain large projects at year end whereas similar projects in 2005 were only commenced in the fourth quarter, thus reducing the revenue recognized on such projects on a comparative basis.

During 2005, gross margin also increased by $3.1 million, or 22% as a result of the HPS acquisition and higher Canadian demand for its products. This increase in gross margin was offset by lower margins on international projects, and completion costs associated with projects undertaken in 2005. At present, Enerflex owns approximately 100,000 square feet of production and processing shop floor space in Alberta, Canada and 62,000 square feet of shop floor space in Perth, Western Australia. During 2005, management estimates that the average utilization rate, based on available labour hours, was 92% as compared to 89% in 2004 in its Canadian based facilities and 87% in its Australian based facilities since acquisition. The division's income before interest and income taxes decreased by 9% during 2005 as compared to 2004, as a result of fewer international projects and increased labour and overhead costs, partly offset by the increase in utilization rates.

In 2006, the division will introduce capabilities to capitalize on the growth in northern Alberta's oil sands projects and will continue to pursue international projects in Asia-Pacific, Pakistan and the Middle East through HPS and PDIL and through various Enerflex business units.

Engineered Systems Segment Bookings

During 2005, Enerflex increased its order bookings in the Engineered Systems segment by approximately 50% versus bookings recorded in 2004. The Engineered Systems segment's order backlog at December 31, 2005 was approximately 211% above the segment's order backlog at December 31, 2004.

PRODUCTION SERVICES

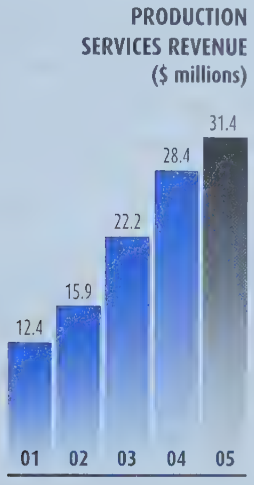
The Production Services business segment provides a variety of rental and leasing alternatives for natural gas compression, power generation and processing equipment. In 2005, with the introduction of Variable Cost Compression services, the segment name was changed from Leasing to Production Services. At the end of 2005, Enerflex's lease fleet was comprised of approximately 370 compression units and 104,000 horsepower, as compared with 360 units and 97,000 horsepower in 2004. This resulted in an average fleet of 360 units and 98,600 horsepower. The key performance metrics in this business are fleet size, utilization rates and rental rates. The Production Services segment employs 1% of staff, holds 19% of the total assets, generates 5% of the Company's revenue and produces 30% of Enerflex's income before interest and income taxes.

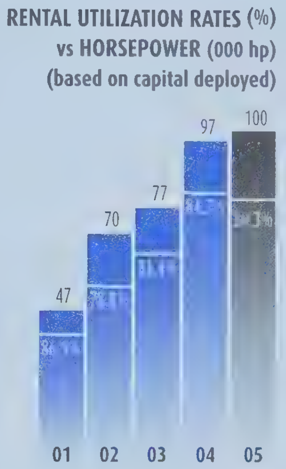
The Company's lease fleet is located principally in western Canada. Expansion in international markets commenced during 2004, and is presently being continued on a selective basis to minimize the risk from these new markets. As of December 31, 2005, Enerflex's compression rental fleet included 15 units located in the United States, 6 units in Australia and 1 unit located in other international markets.

(Thousands) Years ended December 31	**2005**	2004
Production Services segment revenue	**$ 31,563**	$ 28,500
Intersegment revenue	**(146)**	(101)
Revenue	**$ 31,417**	$ 28,399
Gross margin	**$ 20,235**	$ 18,120
EBITDA[1]	**$ 27,067**	$ 24,331
Income before interest and income taxes	**$ 19,588**	$ 17,236
Capital expenditures, net of proceeds on disposal	**$ 5,798**	$ 21,646

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Revenue in 2005 increased by $3.0 million, or 11%, to $31.4 million. While the segment owns and rents compression, power and processing equipment, the main driver for its revenue growth is the rental of compression equipment. In 2005, the segment's revenue was generated 92% by compression and 8% by power and production and process equipment. The revenue increase experienced in 2005 over 2004 was a result of the availability of more compression equipment and modest price increases offset by lower utilization rates during the year. Overall, the segment experienced compression rental utilization rates, based on capital deployed, of 80.3% compared to 84.7% in 2004. The reduction in utilization rates was attributed to higher than anticipated energy prices resulting in higher cash flows and working capital in the hands of the segment's customers. Consequently, these customers tended to acquire new compression assets, as exhibited through the increase in revenues generated by the Compression and Power division, and to purchase compression assets previously under lease, also exhibited by the higher proceeds on the sale of rental assets.





During 2005, Production Services sold 40 compression units and 51 power and process equipment units from its fleet, for gross proceeds of $17.7 million and a gain on sale of $2.5 million. This compares to 45 compression units and 91 power and process equipment units, for gross proceeds of $17.4 million and a gain on sale of $2.9 million in 2004. The sale of units generally occurs when customers exercise their contractual option to purchase equipment. In order to facilitate the expansion of Enerflex's rental fleet in 2006, the Company has altered the buyout provisions of new rental contracts in a manner which encourages renters to continue the contract to its expiry date. To satisfy growing demand for leased compression, Enerflex added 45 compression units and 53 power and processing units to its fleet in 2005, for an investment of $22.9 million. This turnover of assets renews the fleet, resulting in an average fleet age of less than five years.

Production Services expects continued growth in demand for its products in Canada, and has targeted specific geographic regions for expansion in the United States and abroad. Production Services does not generally increase the capital invested in its fleet unless it has lease contracts. Growth in the lease fleet is expected to be the largest internal capital investment opportunity for the Company in 2006. Though Variable Cost Compression did not contribute to revenues during 2005, Enerflex is pleased with the initial level of interest in this new offering and the Company presently estimates that it could deploy $10.0 million in capital towards this endeavor during 2006. Variable Cost Compression provides Enerflex the opportunity to combine the strength of its balance sheet with its expertise in compression optimization in order to improve the returns generated from existing compression assets for both its customers and its shareholders.

Accounting practices in the compression leasing business vary significantly from company to company. Key accounting policies followed by Enerflex's Production Services business are as follows:

- All equipment and related debt are recorded on the balance sheet. No equipment is in special purpose entities. There is no "off-balance sheet" debt.
- Compression equipment is depreciated over its useful life, which has been estimated to be approximately 15 years. Depreciation expense is recorded regardless of whether the equipment is in service or idle.
- When, under the terms of a rental contract, the Company is responsible for maintenance and overhauls, the expense is accrued monthly to match maintenance expense with the related revenue. Maintenance and overhaul costs incurred are charged to the accrued maintenance liability and are not capitalized.

FINANCIAL CONDITION AND LIQUIDITY

Enerflex generated cash flow from operations of $21.5 million in 2005, compared with $50.9 million in 2004. In 2005, operating cash flow was impacted by a $32.6 million increase in non-cash working capital. Cash generated funded the increased investment in working capital, $5.3 million of net additions to rental assets, $9.5 million of net additions to property, plant and equipment and dividends to shareholders of $9.0 million. Additional borrowings under the Company's credit facility funded the acquisition of HPS and the acquisition of the Company's 40% interest in Total Production Services Inc.

In 2005, non-cash working capital from operations increased to $147.8 million as a result of a $30.9 million increase in accounts and income taxes receivable and $21.2 million increase in inventory, offset by a $19.5 million increase in total accounts payable. The increase in accounts receivable reflects the increase in revenue in 2005. Inventories increased in order to insure the Company had access to sufficient quantities of major components and parts for items that are continuing to experience long re-order lead times.

On February 28, 2006, the Company had 22,643,510 common shares outstanding. Enerflex has a dividend policy, which is reviewed on an annual basis. In 2005, the Company declared quarterly dividends equal to $0.10 per common share for a total of $0.40 per common share on an annualized basis. It is the Company's intention to continue the payment of dividends to its shareholders during 2006. Quarterly dividends in 2006 will be increased to $0.125 per common share for a total of $0.50 per common share on an annualized basis.

During 2005, there were no significant changes in the structure of the Company's bank credit facilities other than an increase of $25 million in the availability of the revolving term loan facility and a corresponding $25 million reduction in the availability of the operating loan facility. As such, the Credit Agreement provides for a $75 million revolving operating facility and a $100 million extendible revolving term loan facility. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable and inventories. As of December 31, 2005, $175.0 million of the $175.0 million facility was available to the Company and Enerflex had drawn $128.8 million, comprised of $109.3 million in cash borrowings and $19.5 million in letters of credit or guarantees, leaving approximately $46.2 million available for future drawings. If the term loan is not extended at the end of its term, which is extendible at the bank's option on June 22 of each year, it will be repayable in 36 equal consecutive monthly principal installments. The loans are collateralized by a first floating charge over all of the assets of the Company, and require the Company to meet certain covenants, including a limitation on the debt-to-EBITDA[1] ratio. Enerflex was in full compliance with these covenants at December 31, 2005 and February 28, 2006.

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

On February 28, 2006, approximately $175 million of the $175 million facility was available to the Company and Enerflex had drawn approximately $133.6 million, comprised of $113.5 million in cash borrowings and $20.1 million in letters of credit or guarantee, leaving approximately $41.4 million available for future drawings. These credit facilities provide the financing required to support the Company's operating requirements, as well as the flexibility to pursue growth opportunities.

During September 2005, the Company's subsidiary, Enerflex Australia Holdings Pty Limited, entered into an Australian $20.0 million surety bonding facility in order to assist the Australian operations in obtaining future contracts. The facility is collateralized by a guarantee of the Australian subsidiary and a corporate guarantee of Enerflex. As of December 31, 2005 surety bonds totaling $5.3 million had been issued and as at February 28, 2006 surety bonds totaling $5.2 million had been issued.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

The Company's contractual obligations, assuming that the extendible revolving term loan facility is renewed in June 2006, are contained in the following table. (Details of the amounts payable if the term loan is not renewed are in Note 5 to the financial statements.)

Contractual Obligations

	Payments Due by Period				
(Thousands)	Less than one year	1- 3 years	4-5 years	Thereafter	Total
Leases	$ 7,493	$ 9,799	$ 3,569	$ 3,923	$ 24,784
Purchase obligations	41,977	6,242	19	–	48,238
Total	$ 49,470	$16,041	$ 3,588	$ 3,923	$ 73,022

The majority of the Company's lease commitments are operating leases for Service vehicles.

The majority of the Company's purchase commitments relate to major components subject to significant lead times for the Engineered Systems segment. These purchase obligations were made in order to fix the costs associated with these items, ensure the delivery of major components for existing sales obligations and to provide the Company with a competitive advantage for the awarding of future sales contracts. Also included are long-term information technology and communications contracts entered into in order to reduce the overall costs of services received.

In addition to the contractual obligations above, Enerflex has budgeted for capital spending investments of $56.7 million in 2006. Of that, $34.0 million relates to the expansion of the Company's lease fleet; $10.0 million in compression facilities for Variable Cost Compression; $1.1 million relates to the construction of a facility for Presson's large vessel fabrication operations; $4.1 million relates to business application software and information technology investments; and the balance is normal replacement and expansion needs. As of February 28, 2006, a total of $21.2 million has been committed.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in the notes to the consolidated financial statements. The preparation of these statements requires the use of estimates and judgments that affect the reported revenues and expenses, assets, liabilities, and shareholders' equity. These estimates and judgments are based on historical experience and various assumptions, which management believes to be reasonable in the circumstances. Future events cannot be anticipated with certainty and as such, these estimates and assumptions may change as additional evidence is gathered, new circumstances arise and as the Company's operating environment changes.

The accounting estimates believed to be the most difficult to determine, or which depend on the most complex of judgments, and which have the most impact on the Company's results of operations and financial position are as follows:

Revenue Recognition

Enerflex's Engineered Systems segment applies the percentage of completion method of revenue recognition for determining periodic revenue allocations for projects in progress at each month-end. In general, these contracts are completed within a period not exceeding six months. This methodology requires the use of estimates, based on the historical knowledge and experience of the Company, the specific circumstances of the project and the anticipation of future events in order to determine various factors. These include the stage of project completion, future costs to be incurred in the completion of the project, timing of contract completion and delivery to the ultimate customer, and an estimate of the ultimate gross margin to be earned. These estimates are continually evaluated and may change based upon significant or unanticipated changes in future events; the cost, availability and timing of delivery of materials or components; and the occurrence of unanticipated difficulties in the fabrication or shipping process. In addition to affecting the determination of revenue and gross margin, these estimates could also impact the need for provisions related to late delivery penalties on contracts subject to such conditions. At every month-end, Enerflex reviews each of the projects in progress and evaluates the reasonableness of each estimate made. Upon the completion of the project, a gross margin analysis is prepared to ensure that over the course of the project appropriate revenues and costs have been recorded.

Stock Options and Other Stock-Based Compensation

In 2004, Enerflex adopted the fair value method of accounting for stock options. The determination of the stock-based compensation expense requires the use of estimates and assumptions based on market conditions and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are shown in the notes to the consolidated financial statements.

During 2005, Enerflex introduced a Phantom Stock Option Plan or Stock Appreciation Right ("SAR") which is accounted for using the fair value method of accounting that requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are shown in the notes to the Company's consolidated financial statements.

Allowance for Doubtful Accounts Receivable

Enerflex performs ongoing credit evaluations of its customers and grants credit based upon the customer's past payment history and financial condition, taking into consideration anticipated changes in industry, economic and political conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations. The Company's experience with respect to the incurrence of bad debt losses has been within expectations and has generally been limited to a select number of specific customer situations. However, given the cyclical nature of the global oil and natural gas services industry and the risk associated with finding and producing hydrocarbons, a customer's ability to fulfill their obligations can change without notice.

Excess and Obsolete Inventory Provisions

The Company regularly reviews the nature and quantities of inventory on hand and makes provisions for excess or obsolete inventory items based on historical usage patterns, known changes to equipment or processes and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of the provisions for excess and obsolete inventory.

Warranty Provisions

Enerflex regularly reviews the nature, size and underlying cause of all warranty claims made by customers with respect to the Company's products and services and makes provisions for future warranty claims based on historical information, production patterns and known changes to equipment or processes. Significant or unanticipated changes in customer claim patterns, the quality of suppliers' delivered component parts, the availability of skilled personnel or unforeseen effects of changes in the processes adopted by the Company could impact the magnitude and timing of future warranty costs.

Rental Equipment Overhaul Expenditures

The Company regularly reviews the nature and cost of all major or minor equipment overhaul expenditures incurred with respect to its rental fleet of compressors, power generation and process equipment. As Enerflex is generally responsible for these costs under the terms of its rental agreements, it makes provisions for future equipment overhaul costs associated with the current rental revenues based on historical information, changes in equipment specifications and changes in operating conditions. Significant or unanticipated changes in the cost of such expenditures, operating environments, the availability of repair and maintenance parts, or the availability of skilled labour could impact the magnitude and timing of estimates related to overhaul expenditures.

Depreciation and Amortization

Enerflex's rental assets, and property, plant and equipment are depreciated and amortized based upon estimates of useful lives and salvage values. These estimates may change as more experience is gained, market conditions shift or as future production methodologies are adopted by the Company's customers.

Goodwill and Long-lived Assets

Goodwill and long-lived assets comprise a significant component of the Company's asset base. The carrying values of these assets are reviewed at least annually for impairment or whenever events or changing circumstances indicate that their carrying value may not be recovered. This requires the Company to forecast future cash flows to be derived from such assets based upon assumptions about a variety of future events. Significant unanticipated changes to these assumptions could materially alter the Company's estimates of any provision for impairment made by the Company in the future. It has been determined that there is no impairment in the value of goodwill or other long-lived assets in any of Enerflex's business segments.

Income Taxes

The Company uses the liability method for determining its income tax provisions and liabilities. This methodology takes into consideration the differences between financial statement treatment and income tax treatment of certain transactions, assets and liabilities. Current and future income tax assets and liabilities are recognized for the income tax consequences attributed to the Company's current year operations and the differences between the financial statement treatment and income tax treatment of the matter. Valuation allowances are established to reduce future income tax assets when it is believed that a portion of the asset may not be realized. Estimates of future income tax rates, future income taxes payable and the continuation of prudent tax planning initiatives have been considered in making these valuation assessments. Changes in circumstances, assumptions and the clarification of uncertain taxation matters may require the valuation allowances to change.

INTERNAL CONTROLS

The creation of Bill 198 by the Ontario legislature, and Multilateral Instruments 52-109, 52-110, and 52-111 by the Canadian Securities Administrators, resulted in additional legal requirements for Corporate Governance. These instruments are the Canadian response to the Sarbanes-Oxley legislation in the U.S. Enerflex is committed to adopting emerging and best practices in Corporate Governance. The Company believes that Corporate Governance is fundamental to an efficient and effectively operated organization, as it contributes to business and financial success.

In June 2003, Enerflex began developing its VIPER (Value Improvement Program for Enhanced Results) program. This was designed to assist Enerflex in meeting the requirements of Bill 198 and the attendant securities regulations, and, where possible, to add shareholder value through improvements in processes throughout the Company. This project continues to move forward on its schedule for completion.

During 2005, Enerflex completed the documentation and evaluation of its disclosure controls and has determined that it is compliant with the present requirements for such matters. Furthermore, the Company has completed the documentation of the existing processes and procedures for all material business units, with the exception of HPS that was acquired in 2005 and for which the documentation shall be completed in the second quarter of 2006. Remediation actions for control gaps identified have begun and it is presently estimated that the Company will be prepared to commence internal testing of its key controls over financial reporting by the end of the second quarter of 2006.

During 2005, in order to position the organization to be compliant with the requirements of Bill 198 and the attendant securities regulation, Enerflex amended its internal control environment in the following areas:

- revised or created additional corporate governance documentation and materials as required by amendments to the referenced legislation;
- added monitoring capabilities to assist in the evaluation of the Company's compliance with the requirements of its corporate governance policies;
- established a disclosure committee;
- established a whistleblower policy and communication program;
- created an internal audit position and commenced the development of an internal audit program for future years;
- increased the level of general controls over information technology resources;
- reduced the number of information technology business applications and where appropriate adopted, or commenced the adoption of, common software programs and applications amongst business units;
- established standards for the documentation and evidence of controls being performed; and
- undertook various training initiatives aimed at improving the awareness of the added requirements, the Company's corporate governance policies, its values and disclosure requirements.

This project is on schedule. With respect to the evaluation and documentation of internal controls over financial reporting, and excluding the costs incurred with respect to specific remediation efforts, the Company has incurred costs of approximately $3.5 million from the project's initiation up to and including December 31, 2005. At present Enerflex estimates that an additional $1.0 million will be incurred during 2006.

In April 2005, the Company established a whistleblower communication program. The program acts as an intake point for the confidential, anonymous submission by any stakeholder of concerns relating to any ethical, legal or financial matters. The program is in compliance with the relevant sections of Multilateral Instrument 52-110 on Audit Committees and will assist the Company in monitoring and improving the effectiveness of its core values established in 2004.

OUTLOOK FOR MARKETS AND COMPETITION

As a Canadian-based provider of equipment and services to the global oil and natural gas industry, Enerflex's business prospects are influenced by several market factors. These include the business outlook for oil and natural gas producers, prospects for natural gas infrastructure development, as well as the business outlook and competitive environment within the oil and natural gas service industry.

Industry Outlook – Oil and Gas Producers

While Enerflex continues to build its international presence, the Company's fortunes are largely tied to natural gas capital and operating expenditures in western Canada. Approximately 24,800 wells were completed in 2005, of which approximately 69% were natural gas wells. In 2006, industry analysts forecast that capital expenditures on plant and equipment will remain strong, and will be comparable to, or above 2005. Many forecasters expect that, in the absence of significant discoveries, North American conventional natural gas production will decrease. Sustaining or increasing production volumes is progressively more dependent upon development of tight gas and CBM, both of which require more compression than traditional reservoirs, and expansion in frontier regions such as the Northwest Territories. The continuation of higher natural gas prices similar to or above those experienced in recent years will be required to support gas development in these areas.

Competitive Issues in the Oil and Gas Service Industry

The availability of major components used in the fabrication of the Company's products and access to skilled personnel to meet the technical and trade requirements for designing and assembling these products are under increasing pressure on a worldwide basis. The expansion of Enerflex on a global basis assists the Company in managing these issues as it broadens the markets in which personnel can be accessed and it allows the Company to manage its inventory levels on a larger scale thus improving supply chain. In addition to the various business risk factors outlined below investors should be aware of certain competitive issues in Canada, the United States and overseas markets.

Canada

The Canadian production and processing equipment and compressor packaging markets are very competitive. Several fabricators target the same customers as Enerflex, and fabrication floor space is not a constraint. To be successful, the Company must compete on the basis of quality and service while remaining price competitive. The introduction of additional products is one way the Company maintains its competitive position. In 2005, the Company continued to improve the BTB compression product line and expanded the screw compressor product line to include packages up to 1500 horsepower. In 2006, Enerflex will further expand the compressor product lines and further its compression optimization service, HP*MAX*.

A number of new competitors have emerged for both the Syntech and Pamco business units. Enerflex is a market leader in Canada and maintains an extensive branch network, as proximity to customer locations is key to earning business. Enerflex believes Pamco has a competitive advantage as the authorized Waukesha distributor. Syntech does not have exclusive distributorships, but has developed control technology to help differentiate its business from the competition.

While it is the Company's belief that more compression equipment is being rented each year in Canada, the majority of compression equipment, measured by horsepower, is owned by producers. Enerflex is a leader in the compression rental industry, supplying an estimated 31% of the Canadian market (calculated by horsepower). It is management's belief that a significant opportunity exists through the ownership, operation and management of compression facilities presently owned by natural gas producers. Enerflex is well suited to acquire such assets, reconfigure or replace the compression equipment to the corresponding production profile of the natural gas field and optimize the future compression needs as the future production profile changes. As such, the Company will be pursuing investment opportunities for variable cost compression in 2006 and future years.

United States

There are two major public competitors, one significant private competitor and a number of small regional competitors in the U.S. compression fabrication business. Management believes that the U.S. market may provide the Company with an opportunity to expand its business, through EFX Compression USA, a specialty natural gas compression equipment packager in Odessa, Texas and to supply certain cold-weather markets with compression packages from Enerflex's Canadian facilities.

The U.S. market continues to be more heavily weighted towards compression rentals than the Canadian market. Approximately 30% of the U.S. market is served by rental compression equipment while 70% is owned by producers and pipeline companies (calculated by horsepower). In comparison to the Canadian market, rental rates are lower on certain product ranges in the United States as there has been a surplus of available equipment. Enerflex plans to compete in certain niche markets where returns on capital are appropriate.

International

Internationally, Enerflex generally faces the same competitors as in North America. Most significant North American production equipment and compression fabricators pursue international business. International contacts developed by Presson, HPS and Mactronic, along with those compression products exported from the Company's Canadian facilities, have increased Enerflex's exposure to international opportunities, particularly in Pakistan, the Middle East and the Asia-Pacific markets.

In Australia, through the acquisition of HPS, Enerflex has significantly increased its profile and has improved its competitive potential for meeting the expanding natural gas infrastructure needs of the region. HPS has a history of successfully engineering, constructing and project managing the commissioning of natural gas production and distribution facilities in the range of $5 million to $20 million.

BUSINESS RISKS

While demand for Enerflex's products and services is largely a function of the supply, demand and price of natural gas, many other factors can affect the fortunes of the business either positively or negatively. Enerflex encourages all investors to read and be aware of business risks and the Company's response to them.

Personnel

The Company's Engineered Systems segment requires skilled engineering and design professionals in order to maintain customer satisfaction and engage in product innovation. The Company competes for these professionals, not only with other companies in the same industry, but with oil and gas producers and other industries. In periods of high energy activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

Both the Engineered Systems and Service segments rely on the skills and availability of trained and experienced tradesmen and technicians to provide efficient and appropriate services to the Company and its customers. Hiring and retaining such individuals is critical to the success of the Company's businesses. Demographic trends are reducing the number of individuals entering the trades, making the Company's access to skilled individuals more difficult. There are few barriers to entry in a number of Enerflex's businesses, so retention of staff is essential in order to differentiate the Company's businesses and compete in its various markets.

Additionally, in increasing measures, the Company is dependent upon the skills and availability of various professional and administrative personnel to meet the increasing demands of the requirements and regulations of various professional and governmental bodies, including but not limited to, the requirements of Bill 198 and the attendant securities regulations.

Internal and external training programs have become a key component to ensuring the availability of skilled personnel in all aspects of the Company's activities. Both the Engineered Systems and Service segments are active in apprenticeship programs and the Company has developed an ongoing retention program. Career development is encouraged through both in-house training and outside education centers and the Company has continued its initiatives to identify, train and retain skilled personnel for critical positions.

Energy Prices

Energy prices affect Enerflex, as the majority of the Company's customers generate cash flow from both crude oil and natural gas. The prices for these commodities are determined by supply, demand, government regulations relating to natural gas production and processing, and international political events, none of which can be accurately predicted. During 2005, West Texas Intermediate crude price per barrel ranged from U.S.$43.39 to U.S.$69.81 and Henry Hub natural gas price per mmbtu ranged from U.S.$5.68 to a high of U.S.$15.39. On February 28, 2006 West Texas Intermediate crude price per barrel was U.S.$61.41 and Henry Hub natural gas price per mmbtu was U.S.$6.62.

As free cash flow available for investment by producers varies with commodity prices, the market for capital goods required by the Company's customers is both cyclical and, at times, highly volatile. A sustained period of low natural gas prices, or oversupply, could negatively impact the Company's Engineered Systems businesses as natural gas producers would likely curtail investment in production equipment. Periods of extremely high natural gas prices can cause producers to delay routine maintenance on equipment, impacting the Service segment in the near-term.

Enerflex seeks to mitigate these risks through diversification in both products and services offered and geographical expansion.

Inflationary Pressures

Strong economic conditions and competition for available personnel, materials and major components have resulted in significant increases in the cost of obtaining such resources. To the greatest extent possible, the Company passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices. Should these efforts not be successful, the gross margin and profitability of the Company could be adversely affected.

The Cyclical Nature of the Energy Industry

Changing political, economic or military circumstances throughout the energy producing regions of the world can impact the market price of oil for extended periods of time, which in turn impacts the price of natural gas, as industrial users often have the ability to choose to use the lower priced energy source.

Enerflex is structured to be profitable in both high and low periods of the energy cycle. This is done through product breadth, international diversification and access to a variety of equipment financing methods. Since becoming a public company in 1993, Enerflex has generated profits and positive cash flow even in challenging times.

Climatic Factors and Seasonal Demand

Demand for natural gas fluctuates largely with the heating and electrical generation requirements caused by the changing seasons in North America. Cold winters typically increase demand for, and the price of, natural gas. This increases customers' cash flow which can then have a positive impact on Enerflex. At the same time, access to many western Canadian oil and gas properties is limited to the period when the ground is frozen so that heavy equipment can be transported. As a result, the first quarter of the year is generally accompanied by increased winter deliveries of equipment. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and development operations, reduces the ability to supply gas production in the short-term and can negatively impact the demand for Enerflex's products and services.

Enerflex seeks to reduce the impact of seasonality through geographic expansion and product diversification.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. The Company does not have significant exposure to any individual customer or counter party which accounted for 10% of Enerflex's revenue in 2005. The ongoing consolidation of energy producers and the developing trend for smaller start-up exploration corporations increases the Company's exposure to credit risk.

Foreign Currency Exchange

Enerflex, a Canadian company, is exposed to foreign exchange risk when it buys or sells goods or services in foreign currencies. As these foreign currencies depreciate against the Canadian dollar, it makes the Company's products exported from Canada more expensive in the foreign currency, while reducing the relative cost of inputs purchased in the same currency.

The Company manages most of this inherent risk through a variety of contractual means, but currency risk cannot be eliminated entirely. Enerflex has foreign subsidiaries in Australia, Indonesia, the Netherlands and the United States, and interests in affiliates and joint-ventures in Poland, Pakistan and Germany. The Company has recently established a branch in Egypt. These expose the Company to changes in the exchange rates for the currencies of each country in addition to changes in the Canadian and U.S. dollars.

Foreign Operations

Enerflex sells products and services throughout the world. While this diversification is desirable, it can expose the Company to risks related to cultural, political and economic factors of foreign jurisdictions which are beyond the control of the Company. Other issues, such as the quality of receivables may also arise. Enerflex seeks to mitigate these risks by using staff experienced in foreign operations and monitoring the exposure it maintains in foreign currencies and international operations.

Distribution Agreements

One of the Company's strategic assets is its distribution and OEM agreements with leading manufacturers, notably the Waukesha Engine division of Dresser Inc., for engines and parts, and Ariel Corporation for compressors. In the event that one or more of these agreements were to be terminated, Enerflex would lose a competitive advantage. Enerflex and its people make it a priority to maintain and enhance these strategic relationships.

Enerflex, through its subsidiary HPS, has an agreement with Chemisch Termische Prozesstechnick GesmbH of Austria to exclusively represent their products in Australia, including regenerative thermal oxidizers. This agreement is in effect until October 31, 2010 after which time it extends for annual one year renewal periods unless cancelled by either party.

Competition

The Company has a number of competitors in all aspects of its business, both domestically and abroad. Some of these competitors, particularly in the Engineered Systems segment, are large, multi-national companies with greater access to resources and more experience in international operations than Enerflex. Within Canada, particularly in the Service segment, the Company has a number of small to medium sized competitors, who may not have access to the capital and resources that Enerflex has, but may also face lower overhead costs than the Company.

Availability of Raw Materials, Component Parts or Finished Products

Enerflex purchases a broad range of materials and components in connection with its manufacturing and service activities. The Company purchases most of its compressors and engines through distributor agreements with Ariel Corporation for compressors and Waukesha Engine, a division of Dresser Inc., for natural gas engines and parts. The Company has had a relationship with both of these companies since 1980. Additionally, the Company has relationships with a number of other suppliers including Kobelco Compressors (America) Inc., Mycom Group Inc., and Caterpillar Inc. The availability of the component parts and the delivery schedules provided by these suppliers affect the assembly schedules of the Company's production and services.

Enerflex purchases coolers for its compression packages from a limited number of suppliers. The production schedules and delivery timetables from these suppliers affect the assembly schedule of the Company's products.

Though the Company is generally not dependent on any single source of supply, the ability of suppliers to meet performance, quality specifications and delivery schedules is important to the maintenance of customer satisfaction.

A challenge to achieving improved profitability in 2006 will be the timely availability of certain OEM components and repair parts, which will be in steady demand, as activity levels and production demands for natural gas in North America remain high.

Variable Cost Compression

The Company has initiated a new service offering that, in addition to providing the potential for greater returns, expands its operational risks. Under the Variable Cost Compression initiative, the Company will become responsible for the operation and performance of compression facilities, which are often located in remote areas. These risks are anticipated to include: operational risks affecting facility operating hours, maintenance schedules and equipment failure; environmental risks associated with the operation of a gas compression facility; residual assets; and the estimates of the reservoir life and production characteristics. Enerflex will attempt to limit its exposure to these risks through contractual terms and conditions with its customers, modified insurance coverage and the introduction of certain procedures aimed at improving the monitoring capabilities of such facilities and the acquisition of specific skills and expertise required to effectively operate gas compression facilities, such as its acquisition of a 40% interest in the ownership of Total Production Services Inc., of Grande Prairie, Alberta.

Information Technology

As Enerflex continues to expand internationally, access engineering and other technical skills in foreign locations, develop web-based applications and monitoring products, and improve its business software applications, information technology assets and protocols will become increasingly important to the Company. Enerflex has attempted to reduce this exposure by improving its information technology general controls, updating or implementing new business applications and hiring or training specific employees with respect to the protection and use of information technology assets.

Environmental Considerations

Enerflex's customers, particularly in North America and Europe, are subject to significant and ever-increasing environmental legislation and regulation. This legislation can impact Enerflex both through increasing technical difficulty in meeting environmental requirements in product design which could increase the cost of the Company's products, and a reduction in activity by producers in environmentally sensitive areas which would reduce the sales opportunities available.

At the same time, Enerflex itself operates in a number of jurisdictions and is also subject to environmental legislation and regulation. In order to maintain and enhance environmental compliance, the Company conducts routine property inspections and may engage third-party environmental companies to perform audits when deemed appropriate in the circumstances.

Insurance

Enerflex carries insurance to protect the Company in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions, natural occurrences and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

Management's Responsibility for Financial Information

TO THE SHAREHOLDERS OF ENERFLEX SYSTEMS LTD.

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte & Touche LLP on behalf of the shareholders, in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

P. John Aldred
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
February 8, 2006

Leonard A. Cornez
VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

Auditors' Report

TO THE SHAREHOLDERS OF ENERFLEX SYSTEMS LTD.

We have audited the consolidated balance sheets of Enerflex Systems Ltd. as at December 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Deloitte & Touche LLP
CHARTERED ACCOUNTANTS
Calgary, Alberta
February 8, 2006

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(Thousands) December 31	2005	2004
ASSETS		
Current assets		
Cash	$ 16,350	$ 12,840
Accounts receivable	163,899	132,562
Inventory (Note 3)	84,378	63,176
Income taxes receivable	–	412
Future income taxes (Note 8)	3,983	3,402
Total current assets	268,610	212,392
Rental equipment (Note 4)	90,348	88,772
Property, plant and equipment (Note 5)	68,959	65,814
Investment in affiliates (Note 2)	2,797	–
Future income taxes (Note 8)	4,868	4,425
Intangible assets	7,355	3,210
Goodwill	121,378	112,252
	$ 564,315	$ 486,865
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Operating bank loans (Note 6)	$ 43,310	$ 28,853
Accounts payable and accrued liabilities	90,561	71,980
Accrued dividends payable	2,260	2,234
Income taxes payable	7,612	6,729
Current portion of long-term debt (Note 6)	12,717	16,009
Total current liabilities	156,460	125,805
Long-term debt (Note 6)	63,587	48,027
Other long-term liabilities	1,969	719
Future income taxes (Note 8)	13,042	14,445
	235,058	188,996
Guarantees, Commitments and Contingencies (Note 7)		
Shareholders' equity		
Share capital (Note 9)	184,151	178,540
Cumulative translation adjustment	(6,250)	(414)
Contributed surplus (Notes 1 and 10)	1,739	1,203
Retained earnings	149,617	118,540
	329,257	297,869
	$ 564,315	$ 486,865

See accompanying Notes to the Consolidated Financial Statements.

P. John Aldred
DIRECTOR

Robert B. Hodgins
DIRECTOR

CONSOLIDATED STATEMENTS OF INCOME

(Thousands, except share amounts) Years ended December 31	2005	2004
Revenue	$ 670,612	$ 557,077
Cost of goods sold	524,667	431,867
Gross margin	145,945	125,210
Selling, general and administrative expenses	85,523	77,372
Foreign currency gains	(2,212)	(2,229)
Gain on sale of assets	(2,622)	(2,984)
Income before interest and income taxes	65,256	53,051
Interest	4,641	3,828
Income before income taxes	60,615	49,223
Income taxes (Note 8)	20,523	17,164
Net income	$ 40,092	$ 32,059
Net income per common share (Note 12)		
– basic	$ 1.78	$ 1.44
– diluted	$ 1.77	$ 1.43
Weighted average number of common shares	22,519,976	22,304,429

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Thousands) Years ended December 31	2005	2004
Retained earnings, beginning of period	$ 118,540	$ 96,114
Adjustment to opening retained earnings (Note 1)	–	(705)
Net income	40,092	32,059
Dividends	(9,015)	(8,928)
Retained earnings, end of period	$ 149,617	$ 118,540

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands) Years ended December 31	**2005**	2004
Operating Activities		
Net income	**$ 40,092**	$ 32,059
Depreciation and amortization	**16,139**	15,102
Future income taxes	**(3,072)**	1,354
Gain on sale of assets	**(2,622)**	(2,984)
Stock option expense	**849**	703
	51,386	46,234
Changes in non-cash working capital and other	**(29,873)**	4,620
	21,513	50,854
Investing Activities		
Acquisition of subsidiary (Note 2)	**(16,795)**	–
Acquisition of interest in affiliates (Note 2)	**(2,762)**	–
Purchase of:		
Rental equipment	**(22,939)**	(38,965)
Property, plant and equipment	**(10,820)**	(9,957)
Proceeds on disposal of:		
Rental equipment	**17,650**	17,378
Property, plant and equipment	**1,326**	1,115
	(34,340)	(30,429)
Changes in non-cash working capital and other	**(3,665)**	(3,698)
	(38,005)	(34,127)
Financing Activities		
Increase in operating bank loans	**14,456**	1,226
Advance (repayment) of long-term debt	**13,512**	(3,630)
Stock options exercised	**2,456**	1,407
Dividends	**(8,989)**	(8,917)
	21,435	(9,914)
Changes in non-cash working capital and other	**(1,433)**	(714)
	20,002	(10,628)
Increase in cash	**3,510**	6,099
Cash, beginning of period	**12,840**	6,741
Cash, end of period	**$ 16,350**	$ 12,840

See accompanying Notes to the Consolidated Financial Statements.

Supplemental disclosure of cash flow information (Note 14)

Notes to Consolidated Financial Statements

(Tabular dollar amounts in thousands, except per share/option amounts)

SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Incorporation and basis of presentation

Enerflex Systems Ltd. (the "Company") is incorporated under the Canada Business Corporations Act. The consolidated financial statements include the accounts of Enerflex Systems Ltd., its subsidiaries, its equity interest in affiliates, and its 46.5% interest in the Presson Descon International (Private) Limited joint-venture.

Equity investment

The Company uses the equity method to account for its 40% investment in Total Production Services Inc., an investment subject to significant influence.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates in the financial statements include percentage of completion of fabrication contracts, allowance for doubtful accounts receivable, depreciation and amortization, overhaul accrual, obsolescence provisions, warranty obligations, asset and liability valuations, and commitments and contingencies.

Revenue recognition

Revenues from the design, fabrication and installation of compression and power generation equipment are recorded using the percentage of completion method. Revenues from the fabrication, construction and installation of production and processing facilities and equipment are recognized using the percentage of completion method. Unearned revenue is applied against work in progress for financial statement presentation. Any foreseeable losses on contracts are charged to income at the time they become evident. Revenues from discrete parts and service sales are recorded when goods are shipped and services rendered. Revenues from the provision of integrated parts and service work are recognized on completion of the work. Revenue from equipment leases is recorded over the lease term. In 2005 and 2004, substantially all revenue from equipment leases was from operating leases.

Stock-based compensation plans

The Company's stock-based compensation plans are described in Note 11.

Options – The Company uses the fair value method of accounting for stock options issued on or after January 1, 2002. The value of options is calculated using a modified Black-Scholes method at the time of issuance, and is charged to income over the vesting period. Consideration paid by employees on exercise of stock options is credited to share capital, along with the related value previously expensed. No compensation expense is recognized on options granted before January 1, 2002.

Share units – Restricted Share Units ("RSU") and Deferred Share Units ("DSU") represent indexed liabilities of the Company relative to the Company's share price.

During the vesting period, the Company records as a compensation expense, an allocated portion of the market value of the number of units expected to vest under the plan. A portion of the RSUs and DSUs granted may vest subject to performance criteria to be achieved in the first year after granting, as set by the Board of Directors. During the first year, the compensation expense is recognized based on the management's best estimate of the number of RSUs and DSUs expected to vest ultimately based on the management's best estimates of whether the performance criteria will be met. The accrued liability is marked to market at each period end, through a charge to compensation expense, and allocated between current and long-term liabilities based on when the amount becomes payable.

Phantom shares – In 2005, the Company commenced a Phantom Share (Stock Appreciation Rights) ("SAR") Plan for those employees in jurisdictions other than Canada for whom the Company's Stock Option Plan would have negative consequences.

SARs represent an indexed liability of the Company relative to the Company's share price.

During the vesting period, the Company records as a compensation expense, an allocated portion of the difference between the market value of the number of rights expected to vest under the plan and the strike prices of those rights based on management's best estimate of the number of rights expected to ultimately vest. The accrued liability is marked to market at each period end, through a charge to compensation expense.

Foreign currency translation

Transactions and non-monetary balances denominated in a foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions; monetary balances are translated using the exchange rate at the date of the balance sheet.

The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are included in the cumulative translation adjustment in shareholders' equity in the consolidated balance sheets.

The monetary assets and liabilities of foreign operations not considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Non-monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are included in net income of the period.

Pension arrangements
Defined contribution plan costs, which constitute the Company's major pension arrangement, are expensed by the Company in the period that the contributions are payable.

Warranty obligations
The Company accrues a liability for warranty obligations on the basis of historical claims experience, as a percentage of revenue, specific to each business unit. Warranty costs incurred are charged against this liability.

Income taxes
The Company uses the liability method of accounting for income taxes. Under this method, temporary differences between the tax basis of the Company's assets and liabilities and their carrying amounts result in future income tax assets and liabilities. Future income taxes are measured using income tax rates that, at the balance sheet date, are expected to apply when the liability is settled or the asset is realized.

Earnings per share
Basic earnings per share are calculated using the weighted average shares outstanding in the period. The Company uses the treasury stock method of calculating diluted earnings per share.

Cash
Cash includes cash amounts and cheques in excess of cash on deposit not included in the Company's operating line of credit and, therefore, not subject to netting, and cash equivalents, being all highly liquid investments with original maturities of three months or less.

Inventory
Manufacturing materials are recorded at the lower of cost (principally on the first-in, first-out method) and net realizable value. Repair parts are recorded at the lower of weighted average cost and net realizable value. Work in progress includes material, labour and manufacturing overhead, and is recorded net of unearned revenue on a contract by contract basis.

Rental equipment
Rental equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets; which are generally between 5 and 15 years.

When, under the terms of a rental contract, the Company is responsible for maintenance and overhauls, the expense is accrued monthly to match maintenance expense with the related revenue. Maintenance and overhaul costs incurred are charged to the accrued maintenance liability and are not capitalized. General repairs and maintenance costs not covered under the terms of the rental contract are charged to operations as incurred.

Major renewals and improvements are capitalized. No depreciation is provided on assets under construction.

Rental equipment is assessed for impairment whenever changes in events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets:

Asset Class	Estimated Useful Life Range
Buildings	5 to 25 years
Equipment	2 to 20 years

Major renewals and improvements are capitalized. No depreciation is provided on assets under construction. Repairs and maintenance costs are charged to operations as incurred.

Property, plant and equipment are assessed for impairment whenever changes in events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets represent the fair value of assets at the date of acquisition that result from contractual or other legal rights, or are capable of being separated or divided from the acquired enterprise and sold, transferred, licensed, rented or exchanged. All of the Company's intangible assets are as a result of business combinations. Intangible assets are amortized over management's best estimate of the expected life of the asset. Intangible assets are assessed for impairment at least annually.

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible and intangible assets acquired.

Goodwill is assessed for impairment at least annually. The impairment test is based on management's best estimate of the fair value of the related segments compared to the carrying amounts of those segments.

Note 1. CHANGE IN ACCOUNTING POLICY

2004 – Stock option expense

Effective January 1, 2004, the Company adopted the fair value method of accounting for stock options, on a retroactive basis, without prior period restatement. Before that date, the Company measured stock option compensation cost based on the intrinsic value of the award at the date of issuance. As the exercise price and the market price were the same at the grant date, no compensation cost was recognized on any option issuance. In 2003, the Company disclosed pro forma net income and earnings per share as if compensation cost for the Company's stock-based compensation plan had been determined based on the fair value at the grant date for awards made under the plan subsequent to January 1, 2002.

As a result of the adoption of this policy, the Company has recorded a charge to retained earnings of $705,000 as at January 1, 2004 to reflect the accumulated stock option expense for awards made under the plan subsequent to January 1, 2002. The accumulated contribution, less amounts transferred to share capital on option exercise, are captured in contributed surplus. The estimated fair value of the options issued since that date has been determined using a modified Black-Scholes option pricing model.

Note 2. ACQUISITIONS

Acquisition of 100% owned subsidiary – HPS Group Pty Limited

On July 6, 2005, the Company acquired 100% of the issued and outstanding common shares of HPS Group Pty Limited ("HPS"), of Perth, Australia. HPS is a specialized engineering, contracting and project management organization servicing customers in a wide range of industries, including oil and gas, mining, infrastructure, power and manufacturing.

The total purchase consideration was $24,448,000 (AUD$25.8 million), comprised of $21,601,000 (AUD$22.8 million) in cash and $2,847,000 (AUD$3.0 million) paid by the issuance of 122,176 common shares of Enerflex Systems Ltd. at $23.30 per share. Total transaction costs are currently estimated at $775,000, including share issuance and registration costs which have been charged to share capital.

Subject to the achievement of various performance measures and future earnings targets in the HPS twelve month period ended June 30, 2006, a maximum contingent consideration of AUD$5.0 million could be paid in July of 2006 to the vendors, certain of whom are employees of HPS. The contingent consideration will be recorded at the time of resolution of the contingency, and will impact the final purchase price allocation.

The acquisition has been accounted for as a purchase and the results of the operation of HPS have been included with those of the Company from the date of acquisition.

Below is the preliminary purchase price allocation. The Company is awaiting information, which will not be available until July of 2006, in order to finalize the contingent consideration.

Purchase price:	
Cash	$ 21,601
Shares	2,847
Transaction costs	775
Total purchase price before contingent consideration	$ 25,223
Assets acquired:	
Cash	$ 5,581
Net non-cash working capital	1,500
Property, plant and equipment	2,243
Intangible assets	5,901
Goodwill	10,995
Future income taxes	(809)
Non-current liabilities	(188)
	$ 25,223

Acquisition of interest in Canadian affiliate

On November 16, 2005, the Company acquired a 40% equity interest in Total Production Services Inc. ("Total"), a private Canadian service company of Grande Prairie, Alberta. Total provides contract production and personnel services to oil and gas producers throughout western Canada.

The total purchase consideration was $2,802,000, comprised of $2,750,000 in cash and closing costs currently estimated at $52,000 consisting of audit and legal costs. There is no contingent consideration.

The acquisition has been accounted for as an equity investment, reflecting the Company's significant influence over the affiliate's operations. The Company's share of the results of the operations of the affiliate have been included with those of the Company from the date of acquisition. The share purchase agreement gives the Company rights to its proportional share of the affiliate's income for the period from April 1, 2005 (beginning of fiscal period) through to the date of acquisition. This amount has been included in the determination of the purchase price allocation as income rights.

Below is a preliminary purchase price allocation. The Company is awaiting information related to income taxes and the final settlement and payment of the transaction costs.

Purchase price:	
Cash	$ 2,750
Transaction costs	52
Total purchase price	$ 2,802
Assets acquired:	
Net asset value	$ 755
Property, plant and equipment	915
Income rights	195
Intangibles	537
Goodwill	400
Investment in affiliate	$ 2,802

Acquisition of interest in Polish affiliate

In November 2005, the Company acquired a 33% interest in Gaz serwis – Polska Sp. z o.o. in Poland, to take greater advantage of the Waukesha distributorship awarded to the Company in Poland. The investment is currently carried at cost.

Investment in affiliates

Investment in Canadian affiliate	$ 2,802
Investment in Polish affiliate	6
Interest in earnings of affiliates less amortization	(11)
	$ 2,797

NOTE 3. INVENTORY

December 31	2005	2004
Finished goods	$ 9,038	$ 4,072
Manufacturing materials	18,420	13,836
Repair parts held for resale	36,608	34,166
Work in progress:		
Costs in excess of related billings	26,183	12,879
Billings in excess of related costs	(5,871)	(1,777)
	$ 84,378	$ 63,176

Note 4. RENTAL EQUIPMENT

December 31	2005	2004
Cost	$ 113,771	$ 107,867
Less accumulated depreciation	(23,423)	(19,095)
Net book value	$ 90,348	$ 88,772

Depreciation of rental equipment, which was included in cost of goods sold, was $7,394,000 in 2005 (2004 – $7,080,000).

Note 5. PROPERTY, PLANT AND EQUIPMENT

December 31	2005		2004	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 9,127	$ –	$ 9,411	$ –
Buildings	57,154	(15,741)	57,497	(14,152)
Equipment	57,570	(42,860)	54,049	(40,991)
Assets under construction	3,374	–	–	–
Assets held for sale	411	(76)	–	–
Total	$ 127,636	$ (58,677)	$ 120,957	$ (55,143)
Net book value		$ 68,959		$ 65,814

Depreciation of property, plant and equipment was $7,933,000 in 2005 of which $3,244,000 was included in cost of goods sold and $4,689,000 was included in selling, general and administrative expenses. In 2004, depreciation was $8,022,000, of which $3,692,000 was included in cost of goods sold and $4,330,000 in selling, general and administrative expenses.

Note 6. OPERATING BANK LOANS AND LONG-TERM DEBT

During the second quarter of 2005, the Company renewed its bank credit facilities. The new arrangements provide for a decrease of the Company's revolving operating facility from $100 million to $75 million and for a corresponding increase in the extendible revolving term facility from $75 million to $100 million. If the term loan is not extended at the end of its current term (June 22, 2006), which is extendible at the bank's option in June of each year, it will be repayable in 36 equal, consecutive monthly principal installments, commencing on July 1 of the same year.

The facilities are collateralized by a $250,000,000 floating charge demand debenture, a general security agreement, and a guarantee from each material subsidiary and require the Company to maintain certain covenants. The Company was in compliance with these covenants at December 31, 2005 and 2004.

The Company may borrow under either facility through Bankers' Acceptances ("BAs") in Canadian dollars, London Interbank Offer Rate ("LIBOR") loans in U.S. dollars, Canadian Prime Rate loans or U.S. Base Rate loans.

The Company can also draw on the operating line through bank overdrafts in either Canadian or U.S. dollars and letters of credit.

Under the Credit Facility the Company pays a margin, established in basis points ("bps") in addition to the quoted interest rate, based on the Company's Consolidated Debt to EBITDA[1] ratio, adjusted effective the first day of the third month following the end of each fiscal quarter as follows:

	Borrowings	
	LIBOR, BAs Letters of Credit	Canadian Prime, U.S. Base Rate
Consolidated Debt to EBITDA[1] ratio		
<1.0 to 1.0	100 bps	–
≥ 1.0 to 1.0 and ≤ 1.5 to 1.0	125 bps	–
> 1.5 to 1.0 and ≤ 2.5 to 1.0	150 bps	25 bps
> 2.5 to 1.0	200 bps	50 bps

a) Operating line

At December 31, 2005, $43,310,000 (2004 – $28,853,000) of the $75 million operating line was drawn and was financed, at December 2005 and from time to time during 2004, through LIBOR borrowings, (which bear interest at the London Interbank Offer Rate plus a margin), Canadian dollar BAs (which bear interest at bankers' acceptances rates plus a margin) and bank overdrafts offset by cash deposits.

The composition of the December 31 operating line borrowings is as follows:

December 31	**2005**	2004
Bankers' acceptances – CDN$	**$ 18,000**	$ –
LIBOR borrowing – 2005 – US$11,000 (2004 – US$15,000)	**12,825**	18,054
Net overdraft – CDN$ equivalent	**12,485**	10,799
Operating bank loans	**$ 43,310**	$ 28,853

b) Long-term debt

At December 31, 2005, $76,304,000 (2004 – $64,036,000) of the $100 million extendible revolving term loan facility was drawn, and was financed through LIBOR borrowings, which bear interest at the London Interbank Offer Rate plus a margin, and Canadian dollar BAs, which bear interest at bankers' acceptance rates plus a margin. The composition of the December 31 term loan borrowings is as follows:

December 31	**2005**	2004
Bankers' acceptances – CDN$	**$ 32,000**	$ 52,000
LIBOR borrowing – 2005 – US$38,000 (2004 – US$10,000)	**44,304**	12,036
Total long-term debt	**76,304**	64,036
Less current portion	**(12,717)**	(16,009)
Long-term debt	**$ 63,587**	$ 48,027

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Canadian dollar equivalent principal payments which are due over the next three years, without considering renewal at similar terms, are:

2006	$ 12,717
2007	25,435
2008	25,435
2009	12,717
Total	$ 76,304

c) Interest and financing costs on long-term debt were $3,186,547 (2004 – $2,707,927). The Company's effective interest rate on long-term debt was 4.8% (2004 – 4.3%).

Note 7. GUARANTEES, COMMITMENTS AND CONTINGENCIES

During the third quarter of 2005, the Company's subsidiary, Enerflex Australia Holdings Pty Limited, added a $20 million Australian dollar Surety Bond Facility with a third party for the purposes of complying with performance bonding requirements under the award terms of construction contracts. The facility is secured by a Deed of Indemnity and Guarantee from the subsidiary and a parent company Guarantee.

At December 31, 2005, the Company had outstanding letters of credit issued in lieu of holdbacks, performance guarantees and bid bonds of $25,548,000 (2004 – $9,811,000) of which $1,419,000 (2004 – $380,000) are insured by Export Development Canada, against wrongful call.

Aggregate minimum future required lease payments, primarily for operating leases for equipment, automobiles and premises, are $24,784,000, payable over the next five years and thereafter as follows:

2006	$ 7,493
2007	5,849
2008	3,950
2009	2,273
2010	1,296
Thereafter	3,923
Total	$ 24,784

In addition, the Company has purchase obligations over the next three years as follows:

2006	$ 41,977
2007	$ 6,146
2008	$ 96

The Company is involved in litigation and claims associated with normal operations against which certain provisions have been made in the financial statements. Management is of the opinion that any resulting net settlement would not materially affect the financial position, results of operations or liquidity of the Company.

Note 8. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

Years ended December 31	2005	2004
Income before income taxes	$ 60,615	$ 49,223
Canadian statutory rate (%)	33.62	33.87
Expected income tax provision	$ 20,379	$ 16,672
Add (deduct)		
Income taxed in jurisdictions with different tax rates	(204)	112
Other	348	380
Income tax provision	$ 20,523	$ 17,164

The composition of the income tax provision is as follows:

Years ended December 31	2005	2004
Current income taxes	$ 23,595	$ 15,810
Future income taxes	(3,072)	1,354
Income tax provision	$ 20,523	$ 17,164

The computation of the Company's provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. There are tax matters that have not yet been confirmed by the various tax authorities; however, management believes that the provision for income taxes is adequate.

The tax effect of the significant components of temporary differences that give rise to future income tax assets and liabilities as at year end are as follows:

December 31	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Current:				
Provisions	$ 3,983	$ –	$ 3,402	$ –
	3,983	–	3,402	–
Long-term:				
Provision	283	2,946	375	–
Tax losses	1,436	–	1,666	–
Capital assets	3,149	10,096	2,384	14,445
	4,868	13,042	4,425	14,445
	$ 8,851	$ 13,042	$ 7,827	$ 14,445

The Company has available tax losses in its U.S. subsidiary totaling $7,202,000; however, in the determination of its future income tax assets the Company has only recognized the benefit on $3,633,000 of the losses in the accounts, based on the expectation of the utilization of such losses.

Current future income tax assets result from deductible temporary differences between the tax basis of the Company's current assets and liabilities and their carrying amounts. These relate primarily to provisions for overhaul, doubtful accounts receivable and warranty expense.

Long-term future income tax assets result from deductible temporary differences between the tax basis of the Company's property, plant and equipment and its carrying amount and non-capital loss carry forwards not expected to be utilized in the following year.

Long-term future income tax liabilities result primarily from taxable temporary differences between the tax basis of the Company's rental equipment and its carrying amount.

Note 9. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares and first preferred shares.

Issued

December 31	2005		2004	
	Common Shares	**Amount**	Common Shares	Amount
Balance, beginning of year	**22,337,438**	**$ 178,540**	22,227,188	$ 176,928
Stock options exercised	**148,276**	**2,769**	110,250	1,612
Shares issued on acquisition (net of issuance costs)	**122,176**	**2,842**	–	–
Balance, end of year	**22,607,890**	**$ 184,151**	22,337,438	$ 178,540

On July 6, 2005, the Company issued 122,176 common shares at $23.30 pursuant to the acquisition of HPS (See Note 2. Acquisition). These shares are held in escrow by Champion Legal Pty Limited under the terms of the HPS purchase agreement to support warranties issued to Enerflex by the former shareholders of HPS. Should the warranties provided to Enerflex be satisfied, then 50% of the escrowed shares are to be released from escrow in each of July 2006 and July 2007.

In December 2005, the Company issued a Normal Course Issuer Bid to purchase up to 1,130,313 shares, expiring on December 4, 2006. As at December 31, 2005, the Company had not purchased any shares under this Issuer Bid.

Shareholder Rights Plan

In 1997, the Company implemented a shareholder rights plan (the "Rights Plan"). In 2003, the Board of Directors approved the continuation of the Rights Plan and certain amendments in order to update the Rights Plan and conform its provisions to current shareholder rights plan design practices prevalent for Canadian issuers. These amendments were confirmed by the Toronto Stock Exchange and the shareholders of the Company (the "Amended Rights Plan").

The primary objectives of the Amended Rights Plan are to ensure that, in the context of a bid for control of the Company through an acquisition of Common Shares, the Board of Directors has sufficient time to explore for and develop alternatives for maximizing shareholder value, to provide adequate time for competing bids to emerge, to ensure that shareholders have an equal opportunity to participate in such a bid and have adequate time to properly assess the bid and to lessen the pressure to tender typically encountered by a shareholder of a corporation that is subject to a bid. The Amended Rights Plan utilizes the mechanism of the Permitted Bid (as defined in the 2003 Agreement) to ensure that a person seeking control of the Company allows shareholders and the Board of Directors sufficient time to evaluate the bid. The purpose of the Permitted Bid is to allow a potential bidder to avoid the dilutive features of the Amended Rights Plan by making a bid that conforms with the conditions specified in the Permitted Bid provisions. If a person makes a takeover bid that is a Permitted Bid, the Amended Rights Plan will not affect the transaction in any respect.

Note 10. CONTRIBUTED SURPLUS

Charges and credits to contributed surplus are related to stock options and are as follows:

Years ended December 31	**2005**	2004
Balance, beginning of year	**$ 1,203**	$ –
Change in accounting policy	**–**	705
Compensation expense	**849**	703
Options exercised	**(313)**	(205)
Balance, end of year	**$ 1,739**	$ 1,203

Note 11. STOCK-BASED COMPENSATION

a) Stock options

Stock options entitle the option holder to acquire common shares of the Company's stock at the strike price, established at the time of grant, after vesting and before expiry. The exercise price of each option equals the average of the market price of the Company's shares on the five days preceding the effective date of the grant. The options normally vest at a rate of 20% on each of the five anniversaries of the date of the grant and expire on the tenth anniversary.

At December 31, 2005, the Company has reserved 2,223,500 common shares under the terms of the stock option plan, of which 563,816 were available for issuance at December 31, 2005. At the April 20, 2006 Annual and Special Meeting of the Shareholders, the Company will ask Shareholders to approve an amendment to the plan, which will allow the Board of Directors to grant options that, together with common shares issuable under any other security-based compensation arrangement of the Company, represent in aggregate up to 10% of the number of issued and outstanding common shares from time to time on a non-diluted basis. These amendments to the stock option plan will align the plan with the new Toronto Stock Exchange requirements which permit issuers to adopt "rolling" reserve security-based compensation arrangements.

Prior to November 2005, the Company granted stock-based compensation entitlements in February of each year. In November 2005, in order to improve employee retention programs and to allocate compensation activities throughout the year, the annual award date was changed from February 2006 to November 2005. It is presently the Company's intention to grant annual entitlements of stock-based compensation in November of future years.

On February 21, 2005, the Company issued 120,880 stock options to employees and directors at an exercise price of $28.55. On May 9, 2005, the Company issued 5,450 stock options to employees at an exercise price of $23.72. On August 3, 2005, the Company issued 16,000 stock options at an exercise price of $29.08 to certain new Australian employees of the Company. Due to Australian regulatory restrictions, these options have been withdrawn and replaced with 14,200 Phantom Shares with an exercise price of $29.08 (see c) Phantom Share Plan). On November 30, 2005, the Board of Directors approved the grant of 166,032 stock options at an exercise price of $25.43 to employees and directors of the Company.

Stock options outstanding as of December 31 are as follows:

	2005		2004	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**1,062,772**	**$ 20.94**	951,422	$ 19.59
Granted	**292,362**	**26.69**	341,050	22.22
Exercised	**(148,276)**	**16.56**	(110,250)	12.76
Forfeited	**(55,400)**	**23.04**	(96,499)	20.21
Expired	**(22,800)**	**26.92**	(22,951)	26.57
Outstanding, end of year	**1,128,658**	**$ 22.78**	1,062,772	$ 20.94
Options exercisable, end of year	**440,189**		461,581	

	Options outstanding			Options exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$7.81 – $9.33	40,000	0.10	$ 9.33	40,000	$ 9.33
$9.34 – $21.54	339,110	6.04	16.27	148,680	17.79
$21.55 – $29.50	645,448	8.15	25.23	147,409	26.62
$29.51 – $38.18	104,100	3.08	33.92	104,100	33.92
$7.81 – $38.18	1,128,658	6.76	$ 22.78	440,189	$ 23.79

The estimated fair value of the options used for accounting purposes has been determined using a modified Black-Scholes option pricing model with the following assumptions:

Years ended December 31	**2005**	2004
Weighted average risk-free interest rate (%)	**3.8**	3.5
Weighted average expected life (in years)	**5.5**	5.7
Estimated volatility in the market price of the common shares (%)	**33.1**	35.4
Expected dividend yield (%)	**1.5**	1.8
Calculated weighted average fair value per option	**$ 8.33**	$ 7.13

b) Share units

A Restricted Share Unit ("RSUs") or Deferred Share Unit ("DSUs") entitles the holder to receive a payment, as described below, from the Company equal to the implied market value calculated as the number of units multiplied by the closing price of Enerflex common shares on the entitlement date.

RSUs may be granted to eligible participants on an annual basis and will generally vest on the third anniversary date of the grant subject to the achievement of any performance criteria which may, at the discretion of the Company, be attached as a condition of vesting at the date of grant. Performance criteria may include such performance measures as earnings per share or return on capital employed, either for the Company as a whole, or a portion thereof. Vested RSUs are to be settled by the end of the year following the year in which vesting occurs. The Company may at its sole discretion, satisfy, in whole or in part, its payment obligation through a cash payment to the participant or by instructing an independent broker to acquire a number of fully paid shares in the open market on behalf of the participant.

DSUs may be granted to eligible participants on an annual basis and will generally vest on the fifth anniversary date of the grant subject to the achievement of any performance criteria which may, at the discretion of the Company, be attached as a condition of vesting at the date of grant. Performance criteria may include such performance measures as earnings per share or return on capital employed, either for the Company as a whole, or a portion thereof. Vested DSUs are to be settled in cash, payable to the participant by the end of the year following the year in which their employment is terminated through departure, retirement or death.

The number of DSUs granted to an individual participant is limited, in the case of the initial grant, to an aggregate market value of the grant not in excess of 100% of the participant's regular annualized salary and, in the case of subsequent grants, to an aggregate market value of the grant not in excess of 50% of the participant's annualized salary and cash bonuses for the twelve months preceding the grant date.

RSU and DSU recipients are entitled to additional units over and above those initially granted based on the notional number of shares that could have been purchased using the proceeds of notional dividends, that would have been received had the units then subject to vesting been actual common shares of the Company, following each dividend paid to the Shareholders of the Company.

Both RSUs and DSUs represent an indexed liability of the Company relative to the Company's share price.

On February 10, 2005, the Company issued 50,550 RSUs to employees of the Company and on April 14, 2005, the Company granted 2,400 RSUs to employees of the Company. On August 3, 2005, the Company issued 5,550 RSUs to certain new employees of the Company. Of these RSUs, 50% are subject to sliding scale performance criteria based on the increase in Return on Capital Employed ("ROCE") in fiscal 2005 over that achieved in fiscal 2004. An increase in ROCE of 0.0% will result in 0% of the units subject to performance criteria being eligible for vesting. An increase in ROCE of 2.0%, or better, will result in 100% of the units subject to performance criteria being eligible for vesting. Each 0.1% increment between 0.0% and 2.0% in the change in ROCE increases the number of units eligible for vesting by 5%.

Prior to November 2005, the Company granted stock-based compensation entitlements in February of each year. In November 2005, in order to improve employee retention programs and to allocate compensation activities throughout the year, the annual award date was changed from February 2006 to November 2005. It is presently the Company's intention to grant annual entitlements of stock-based compensation in November of future years.

On November 30, 2005, the Company issued 111,220 RSUs to employees of the Company. Of these RSUs, 50% are subject to sliding scale performance criteria based on the increase in ROCE in fiscal 2006 over that achieved in fiscal 2005. An increase in ROCE of 0.0% will result in 0% of the units subject to performance criteria being eligible for vesting. An increase in ROCE of 2.0%, or better, will result in 100% of the units subject to performance criteria being eligible for vesting. Each 0.1% increment between 0.0% and 2.0% in the change in ROCE increases the number of units eligible for vesting by 5%.

Restricted share units outstanding as of December 31, 2005 are as follows:

Restricted share units

	Not Subject to Performance Criteria	In Lieu of Dividends	Subject to Performance Criteria	In Lieu of Dividends	Weighted Average Grant Date Fair Value per Unit
Outstanding, beginning of year	40,550	516	25,862	110	$ 20.27
Granted	82,360	967	87,360	685	$ 26.45
Exercised	–	–	–	–	$ –
Forfeited	(3,450)	(10)	(3,450)	(10)	$ 23.48
Performance criteria not met	–	–	(5,135)	–	$ 25.23
Outstanding, end of year	119,460	1,473	104,637	785	$ 24.71

Deferred share units

	Not Subject to Performance Criteria	In Lieu of Dividends	Subject to Performance Criteria	In Lieu of Dividends	Weighted Average Grant Date Fair Value per Unit
Outstanding, beginning of year	15,000	410	312	4	$ 16.61
Granted	–	231	–	4	26.28
Exercised	–	–	–	–	–
Forfeited	–	–	–	–	–
Performance criteria not met	–	–	–	–	–
Outstanding, end of year	15,000	641	312	8	$ 16.75

c) Phantom Share Plan

During 2005, the Board of Directors approved the adoption of a Phantom Share Plan (Stock Appreciation Right) ("SAR") for the purpose of providing stock-based compensation incentives to certain employees in jurisdictions outside of Canada.

The exercise price of each SAR equals the average of the market price of the Company's shares on the five days preceding the date of grant. The SARs normally vest at a rate of 20% on each of the five anniversaries of the date of grant and expire on the tenth anniversary. The award entitlements for increases in the common share trading value of Enerflex Systems Ltd. are to be paid to the recipient in cash upon exercise.

Effective August 3, 2005, the Board of Directors approved the grant of 14,200 SARs, to certain new employees resident outside of Canada, at an exercise price of $29.08 and on November 29, 2005 the Board of Directors approved the grant of 18,450 SARs at an exercise price of $25.43 to certain employees of the Company's Australian subsidiaries.

	2005	
	Phantom Shares	**Weighted Average Exercise Price**
Outstanding, beginning of year	–	$ –
Granted	**32,650**	**27.02**
Exercised	–	–
Forfeited	–	–
Expired	–	–
Outstanding, end of year	**32,650**	**$ 27.02**
Phantom shares exercisable, end of year	–	–

d) Stock-based compensation expense

The stock-based compensation expense included in income is:

Years ended December 31	**2005**	2004
Stock options	**849**	703
Share units	**1,224**	300
Phantom shares	**1**	–
Total	**2,074**	1,003

Note 12. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Years ended December 31	**2005**			2004		
	Net Income	**Weighted Average Shares Outstanding**	**Per Share**	Net Income	Weighted Average Shares Outstanding	Per Share
Basic	**$ 40,092**	**22,519,976**	**$ 1.78**	$ 32,059	22,304,429	$ 1.44
Options assumed exercised		**684,946**			540,856	
Shares assumed purchased		**(573,308)**			(398,410)	
Diluted	**$ 40,092**	**22,631,614**	**$ 1.77**	$ 32,059	22,446,875	$ 1.43

Note 13. FINANCIAL INSTRUMENTS

Foreign currency

In the normal course of operations, the Company is exposed to movements in the U.S. dollar, the Australian dollar, the Pound Sterling, the EURO, the Pakistani rupee and the Indonesian rupiah. The Company does not hedge the net investment exposure in foreign subsidiaries.

The Company also enters into contracts denominated in currencies other than Canadian dollars for the export of goods from its Canadian facilities, usually in U.S. dollars. In order to mitigate the exposures from such contracts, the Company matches future foreign currency cash inflows with foreign currency denominated liabilities, primarily through the currency mix in short and long-term borrowings.

From time to time, the Company also utilizes financial instruments to create offsetting positions to specific exposures. These instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes.

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers.

Interest rate risk

The Company's liabilities include certain long-term debt and bank indebtedness that are subject to fluctuations in interest rates. For each 1.0% change in the rate of interest on these loans, the change in interest expense would be approximately $1,196,000, based upon the loan balances at December 31, 2005.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the consolidated balance sheets, other than long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt does not differ significantly from its carrying amount.

Note 14. SUPPLEMENTAL INFORMATION

Supplemental disclosure of cash flow information

Years ended December 31	2005	2004
Interest paid	$ 5,069	$ 3,797
Interest received	$ 333	$ 237
Income taxes paid	$ 23,544	$ 15,874
Income taxes received	$ 1,599	$ 1,834

Cash provided (used) through changes in non-cash working capital		
Accounts and taxes receivable	$ (30,925)	$ (12,542)
Inventory	(21,202)	7,986
Accounts, taxes payable and accrued liabilities	19,490	6,097
Foreign currency and other	(2,334)	(1,333)
	$ (34,971)	$ 208
Resulting from operations	$ (29,873)	$ 4,620
Resulting from investing	(3,665)	(3,698)
Resulting from financing	(1,433)	(714)
	$ (34,971)	$ 208

Defined contribution pension arrangements

The amount expensed in 2005 under the Company's defined contribution pension arrangements was $3,315,000 (2004 – $102,000). The increase in this expense is the result of the creation of a Group Retirement Savings Plan for the Company's Canadian employees in April 2005.

Note 15. INTEREST IN JOINT-VENTURE

The Company proportionately consolidates its 46.5% interest in the assets, liabilities, results of operations and cash flows of its joint-venture in Pakistan, Presson Descon International (Private) Limited. The 46.5% interest included in the Company's account includes:

Years ended December 31	2005	2004
Balance Sheet		
Current assets	$ 558	$ 6,012
Long-term assets	147	149
Current liabilities	409	4,624
Long-term liabilities and equity	$ 296	$ 1,537
Income Statement		
Revenue	$ 858	$ 7,081
Expenses	1,592	6,022
Net income	$ (734)	$ 1,059
Cash flows		
From operations	$ (693)	$ 1,995
From financing activities	(18)	48
From investing activities	$ (26)	$ (153)

Note 16. SEGMENTED INFORMATION

The Company has three reportable segments: Service, Engineered Systems (formerly Fabrication) and Production Services (formerly Leasing). The Service reportable segment is the aggregation of the Mechanical Service and Syntech divisions. The Engineered Systems reportable segment is the aggregation of the Production and Processing and Compression and Power divisions.

	Service		Engineered Systems formerly known as 'Fabrication'		Production Services formerly known as 'Leasing'		Consolidated	
Years ended December 31	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Segment revenue	**$283,454**	$ 264,740	**$393,703**	$ 319,503	**$ 31,563**	$ 28,500	**$708,720**	$ 612,743
Intersegment revenue	**(15,411)**	(16,105)	**(22,551)**	(39,460)	**(146)**	(101)	**(38,108)**	(55,666)
External revenue	**268,043**	248,635	**371,152**	280,043	**31,417**	28,399	**670,612**	557,077
Gross margin	**74,567**	67,050	**51,143**	40,040	**20,235**	18,120	**145,945**	125,210
Depreciation and amortization	**3,424**	3,374	**5,236**	4,633	**7,479**	7,095	**16,139**	15,102
Income before interest and income taxes	**23,208**	18,346	**22,460**	17,469	**19,588**	17,236	**65,256**	53,051
Segment assets	**128,199**	117,363	**203,365**	150,120	**102,006**	93,659	**433,570**	361,142
Corporate							**9,367**	13,471
Goodwill	**52,195**	52,814	**61,827**	52,082	**7,356**	7,356	**121,378**	112,252
Total segment assets	**180,394**	170,177	**265,192**	202,202	**109,362**	101,015	**564,315**	486,865
Capital expenditures	**4,672**	4,992	**4,758**	3,886	**23,448**	39,026	**32,878**	47,904
Corporate							**881**	1,018
							33,759	48,922
Proceeds on disposal of assets	**$ 1,178**	$ 883	**$ 148**	$ 186	**$ 17,650**	$ 17,380	**$ 18,976**	$ 18,449
Corporate							**–**	44
							$ 18,976	$ 18,493

Revenue from foreign countries was:

Years ended December 31	**2005**	2004
Australia	**$ 53,124**	$ 27,810
Egypt	**15,851**	815
Indonesia	**11,352**	1,834
Netherlands	**20,120**	18,495
Pakistan	**13,045**	37,760
United States	**23,951**	21,500
Other	**39,884**	39,490
	$ 177,327	$ 147,704
Included in these amounts are gross exports from domestic operations of:	**$ 83,875**	$ 81,599

Revenue is attributed to countries by the destination of the sale.

Total assets in foreign countries were as follows:

December 31	2005			2004		
	Capital Assets & Goodwill	**Other Assets**	**Total Assets**	Capital Assets & Goodwill	Other Assets	Total Assets
Australia	**$ 15,261**	**$ 30,241**	**$ 45,502**	$ 445	$ 7,479	$ 7,924
Netherlands	**4,069**	**13,352**	**17,421**	5,002	13,470	18,472
United States	**9,255**	**7,116**	**16,371**	6,151	6,745	12,896
Other			**7,997**			10,583
Total assets			**$ 87,291**			$ 49,875

Total assets are attributed to countries by the location of the business.

TEN YEAR HISTORICAL REVIEW

($ millions, except per share data and ratios)

(unaudited)	**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Results										
Revenue	**670.6**	557.1	515.5	326.7	375.0	286.3	256.7	314.5	336.2	245.9
EBITDA[1]	**81.4**	68.2	51.2	30.0	47.8	28.9	29.1	42.4	46.7	32.4
Income before income taxes	**60.6**	49.2	31.2	14.3	36.5	17.7	20.4	38.1	42.7	27.8
Net income	**40.1**	32.1	20.4	9.2	22.5	11.3	12.1	22.6	25.2	16.5
Per common share – basic ($)	**1.78**	1.44	0.92	0.51	1.51	0.76	0.81	1.50	1.67	1.10
Interest expense (income)	**4.6**	3.8	5.3	3.6	2.7	3.6	1.9	(0.3)	(0.1)	0.7
Depreciation and amortization	**16.1**	15.1	14.7	12.1	8.6	7.6	6.8	4.6	4.1	3.9
Cash from operations	**21.5**	50.9	34.1	36.3	29.1	16.2	5.3	1.4	29.9	15.6
Capital expenditures, net										
Rental equipment	**5.3**	21.6	3.7	8.5	10.0	7.9	5.6	10.2	0.6	(2.2)
Property, plant and equipment	**9.5**	8.8	2.8	2.2	2.5	4.3	14.8	23.5	3.3	2.7
Dividends on common shares	**9.0**	8.9	8.9	7.4	6.0	6.0	6.0	6.0	4.5	3.8
Financial Position										
Working capital	**112.2**	85.9	82.8	68.7	62.1	57.9	60.0	56.0	58.0	37.7
Rental equipment	**90.3**	88.8	71.8	68.1	39.0	31.7	26.0	22.2	13.4	13.8
Property, plant and equipment	**69.0**	65.8	65.0	70.3	45.1	47.3	47.7	36.7	16.2	15.5
Total assets	**564.3**	486.9	457.7	451.2	222.1	192.7	186.1	159.5	142.7	106.4
Long-term debt	**76.3**	64.0	68.4	69.0	30.0	30.0	30.0	15.2	–	–
Shareholders' equity	**329.3**	297.9	274.5	260.9	118.5	104.1	103.0	100.1	87.0	66.4
Key Ratios										
Gross margin as a percentage of revenue	**21.8**	22.5	20.2	21.4	19.5	18.8	19.8	22.4	21.7	21.4
Pre-tax income as a percentage of revenue	**9.0**	8.8	6.1	4.4	9.7	6.2	8.0	12.1	12.7	11.3
Return on average equity (%)[2]	**12.8**	11.2	7.6	4.9	20.2	10.9	11.9	24.1	32.9	27.6
Return on capital employed (%)[3]	**15.8**	14.0	10.0	6.9	24.0	13.9	15.7	36.7	54.6	41.1

1 EBITDA is a non-GAAP earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. Enerflex calculates EBITDA as follows:

EBITDA for the year ended December 31, 2005: ($ thousands)	
Earnings before interest and income taxes	$ 65,256
Depreciation and amortization	16,139
EBITDA	$ 81,395

2 Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

3 Return on capital employed is calculated as pre-tax income plus interest expense divided by the simple average of capital employed at the beginning of the year and at the end of each quarter. Capital employed is the sum of shareholders' equity plus current and long-term bank indebtedness.

QUARTERLY DATA

($ millions, except per share data) *(unaudited)*	**2005** Q4	Q3	Q2	Q1	2004 Q4	Q3	Q2	Q1
Revenue	**203.1**	**162.7**	**157.1**	**147.7**	167.7	141.3	119.8	128.3
EBITDA[1]	**25.1**	**20.7**	**19.3**	**16.2**	22.7	16.2	13.5	15.7
Income before income taxes	**19.3**	**15.1**	**14.8**	**11.4**	17.9	11.5	8.8	11.0
Net income	**13.7**	**9.8**	**9.2**	**7.4**	11.4	7.7	5.8	7.1
per common share – basic	**0.61**	**0.44**	**0.41**	**0.33**	0.51	0.35	0.26	0.32
Depreciation and amortization	**4.3**	**4.3**	**3.6**	**3.9**	3.7	3.9	3.8	3.7
Cash from operations	**2.8**	**11.0**	**9.2**	**(1.5)**	14.6	16.0	10.5	9.7
Capital expenditures, net								
Rental equipment	**2.5**	**3.0**	**1.1**	**(1.4)**	7.0	4.7	5.1	4.8
Property, plant and equipment	**2.6**	**3.0**	**2.1**	**1.8**	1.7	3.4	2.6	1.1
Dividends on common shares	**2.3**	**2.3**	**2.2**	**2.2**	2.2	2.3	2.2	2.2
Dividends per comon share (¢)	**10.0**	**10.0**	**10.0**	**10.0**	10.0	10.0	10.0	10.0
Pre-tax income as a % of revenue	**9.5**	**9.3**	**9.4**	**7.7**	10.7	8.1	7.4	8.6

COMMON SHARE DATA

		2005	2004	2003	2002	2001	2000
Trading price range of common stock:	– high	**29.95**	26.30	20.20	26.50	32.40	42.00
	– low	**21.75**	19.25	12.05	13.20	18.60	25.00
	– close	**26.84**	23.56	20.20	15.00	19.75	31.00
Trading volume (millions)		**9.1**	9.5	8.9	7.0	5.2	6.8
Common shares (millions)							
Outstanding, end of year		**22.6**	22.3	22.2	22.2	14.9	15.0
Weighted average – basic		**22.5**	22.3	22.2	18.2	14.9	15.0

[1] Earnings before interest, income taxes and depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principals) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Enerflex calculates EBITDA as follows ($ thousands):	2005
Earnings before interest and income taxes	$ 20,814
Depreciation and amortization	4,326
EBITDA	$ 25,140

Directors and Officers

P. JOHN ALDRED
DIRECTOR
OFFICER OF THE CORPORATION
Chairman and
Chief Executive Officer
Enerflex Systems Ltd.
Calgary AB

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INDEPENDENT DIRECTOR
President and
Chief Executive Officer
Enbridge Inc.
Calgary AB

DOUGLAS J. HAUGHEY (3)
INDEPENDENT DIRECTOR
President
Gas Transmission West
Duke Energy Corporation
Calgary AB

ROBERT B. HODGINS (1)
INDEPENDENT DIRECTOR
Investor and
Corporate Director
Calgary AB

GEOFFREY F. HYLAND (2)
INDEPENDENT DIRECTOR
Consultant and
Corporate Director
Caledon ON

NANCY M. LAIRD (1,3)
INDEPENDENT DIRECTOR
Investor and
Corporate Director
Calgary AB

J. NICHOLAS ROSS (1,3)
INDEPENDENT DIRECTOR
Chairman and
Chief Executive Officer
Rover Capital Corporation
Toronto ON

ROBERT C. WILLIAMS (2)
LEAD DIRECTOR
Managing Director
Equity Capital Markets
and Syndication
Scotia Capital Inc.
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Vice-President and
Chief Financial Officer
Calgary AB

J. BLAIR GOERTZEN
OFFICER OF THE CORPORATION
President and
Chief Operating Officer
Red Deer AB

RACHEL M. MOORE
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Vice-President
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and Privacy Officer
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Syntech
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SEAN R. ULMER
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[1] Audit Committee
[2] Corporate Governance Committee
[3] Human Resources and Compensation Committee

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Shareholder Information

SHARES

The common shares of the Company are listed and traded on the Toronto Stock Exchange under the share symbol "EFX". The Company is a constituent of the S&P/TSX Composite Index and the S&P/TSX Small Cap Index.

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Email: service@computershare.com
Website: www.computershare.com

All questions about accounts, stock certificates or dividend cheques should be directed to the Registrar and Transfer Agent.

AUDITORS

Deloitte & Touche LLP
Calgary AB

BANKERS

Canadian Imperial Bank of Commerce
HSBC Bank Canada
The Toronto Dominion Bank
Calgary AB

SOLICITORS

Bennett Jones LLP
Calgary AB

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Requests for the Company's Annual Reports, Quarterly Reports and other corporate communications should be directed to:
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SHARES HELD IN NOMINEE NAME

To ensure that shareholders whose shares are not held in their name receive all Company reports and releases on a timely basis, a direct mailing list is maintained by the Company. If you would like your name to be added to this list, please forward your request to Investor Relations at Enerflex.

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